

# The Bank of England's approach to conflicts of interest

A Review by the Non-Executive Directors of the Bank's Court

August 2017



BANK OF ENGLAND





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# Executive summary

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In March 2017, the Court of the Bank of England ('Court') commissioned a Review of the institution's approach to managing conflicts of interest. This followed the resignation, on 14 March 2017, of Charlotte Hogg, Deputy Governor for Markets and Banking and Chief Operating Officer.

The Review has been conducted by the Non-Executive Directors of the Bank's Court.<sup>(1)</sup> The Terms of Reference (Annex 1) required the Non-Executive Directors to consider three aspects of the Bank's approach to managing conflicts:

- the **policies and processes** for identifying and managing conflicts of interest at the Bank, including the lessons arising from Ms Hogg's case;
- what the Bank should do to ensure full and timely **compliance** with those policies, especially among 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 were adequate.

The Non-Executive Directors engaged lawyers Herbert Smith Freehills LLP to provide external advice to this Review, including assurance, as needed, as to the Review's appropriateness and effectiveness.<sup>(2)</sup>

In conducting this Review, the Non-Executive Directors drew on a number of inputs. These included: discussions with Bank officials and external committee members; a review of relevant internal documentation; a benchmarking exercise that considered conflict management at fifteen different organisations; advice from the Cabinet Office about the management of conflicts at senior levels in central government; and information from the National Audit Office about the approach to managing conflicts elsewhere in the UK public sector.<sup>(3)</sup> We also note that a number of improvements to the Bank's policies and procedures in this area have been put in place since the time of Ms Hogg's resignation in March 2017, and comment on these where appropriate.

Conflicts are a normal and unavoidable part of management that can arise in a range of circumstances. Seeking to eliminate them completely is neither feasible nor desirable. The aim of conflict policies and processes should therefore be to identify conflicts and then manage them appropriately. A sound practical understanding of conflict risk needs to be reinforced by effective policies, working practices and systems. The exercise of sound judgement will always be important and cannot be overemphasised.

The Bank has a strong culture of integrity. Employees recognise the importance of 'doing the right thing' and that integrity is essential for public trust. Consistent with that are the multiple examples of effective conflict management that we noted during the Review. However, despite the strong cultural emphasis on integrity, we have found an insufficient practical understanding in some areas about how to identify and manage *perceived* conflicts of interest.<sup>(4)</sup>

In the case of Ms Hogg, she has taken full responsibility for her actions. She did not declare her brother's role at Barclays in accordance with the Bank's policies. The events leading up to Ms Hogg's resignation underscore the importance of the Bank developing clear and well-understood explanations about the types of conflicts that can occur and how to handle them, especially in the area of perceived conflicts.

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(1) The Review team supporting the Non-Executive Directors has been led by the Bank's Independent Evaluation Director, with the Head of Internal Audit providing advice and assistance as needed. The Chair of Court chose to recuse himself from the Review; see Press Release issued on 14 March 2017.

(2) A letter from Herbert Smith Freehills LLP to Bradley Fried, Chair of the Review Committee, has been published alongside this Review.

(3) This has been published alongside this Review; <https://www.nao.org.uk/report/contribution-to-bank-of-england-review-managing-potential-conflicts-of-interest/>.

(4) We follow the Organisation for Economic Co-operation and Development (2005) definition of apparent (or perceived) conflicts, namely: 'A set of circumstances where there appears to be a conflict of interest, but this is not in fact the case (or may not be the case)'.

Ms Hogg's case points to a number of broader lessons. These include the need to strengthen conflict checks prior to appointment and to ensure the appropriate application of HR processes. There is also a need for greater clarity about who takes decisions about conflicts. Individuals are responsible for full, timely and accurate disclosures of relevant personal information, including making appropriate disclosures in the context of specific decisions. But it should be for others within the Bank to decide whether individual disclosures could represent a conflict, and how conflicts should be handled. This is particularly important for situations that could be perceived as conflicts, as individuals are typically not best placed to judge how their personal circumstances may be reasonably viewed by others.

The Bank has made considerable progress in recent years in modernising and strengthening the infrastructure and processes underpinning its work, including in the area of conflict management. This Review illustrates that there is further to go, however. A recurring theme is the risk of 'inadvertent non-disclosure' posed by ambiguities in some elements of Bank policies, and shortcomings in some processes and systems.

This Review has identified a number of priority areas for change:

- **Designate a single senior executive (a 'Conflicts Officer') to be responsible under the Senior Managers Regime for management of the Bank's conflict arrangements (and for reporting to Court on those arrangements)** (see Box 7). We would expect the Conflicts Officer both to champion the culture needed for effective conflict management, and to lead the necessary process changes. That individual should also be accountable to Court for progress against this Review's recommendations.
- **Clarify the reporting requirements for personal relationships** (see Box 2). The Bank's current reporting requirements for personal relationships are wide and, in some respects, at risk of misinterpretation. This carries with it a risk of inadvertent non-disclosure — individuals may believe they are compliant with the Bank's requirements when in fact they are not. We recommend that:
  - (a) The Bank mandates the disclosure of relevant information about a tightly defined category of close family relationships, extending to spouse/partner, parents, siblings and children.<sup>(1)</sup> This relevant information should be clearly prescribed.<sup>(2)</sup>
  - (b) The Bank should continue to require the disclosure of other close personal relationships that could reasonably be expected to give rise to (actual or perceived) decision-specific or 'situational' conflicts.<sup>(3)</sup> The proposed Conflicts Officer should provide guidance, and be available to consult with individuals as necessary to help them decide whether such disclosure is required.
- **Strengthen the practical understanding and awareness of conflict risk, especially for perceived conflicts.** This requires the development of clear descriptions of the nature of conflicts, reinforced by internal training, and proactive engagement with relevant external stakeholders. Senior leaders need to lead by example by ensuring the robust and consistent management of conflicts in key decision-making committees.
- **Ensure a consistent approach to deciding on conflicts.** Policies should make clear who is responsible for deciding whether individual disclosures may represent a conflict, taking into account statutory requirements where relevant.<sup>(4)</sup> For members of the policy committees, this is the committee itself. For most Bank officials, this decision should usually be taken by the relevant manager advised by the proposed Conflicts Officer/their designates.
- **Strengthen conflict checks at appointment, particularly for senior posts.** For Crown/Chancellor appointees,<sup>(5)</sup> for whom the appointment process is led by HM Treasury, there have been a series of improvements in pre-appointment conflict checks following Ms Hogg's resignation. We recommend that these improvements, which include a more structured role for the Bank, become a permanent feature (responsibility for the appointment will continue to rest with the Crown/the Chancellor, as required by statute).

(1) These mandatory reporting requirements should include scope for derogation in exceptional circumstances where an individual could not reasonably be expected to be aware of a relative's personal situation (eg family estrangement).

(2) For example, officials should be required to report when these close relatives work for a Bank-regulated firm.

(3) Such 'situational' conflicts — that is, where the nature and proximity of the personal relationship and the respective roles of the individuals in question mean that there is an inherent risk of (at least a perceived) conflict — are likely to occur relatively rarely.

(4) See Annex 2.

(5) Members of Court are Crown appointees; external members of statutory policy committees are appointed by the Chancellor.

- Expedite the introduction of a centralised, electronic system for capturing, reviewing and analysing relevant data, with appropriate protections for privacy. A tailored approach will be needed for the Bank's most senior officials, external members of policy committees and Non-Executive Directors of Court, given the additional reporting requirements that apply to these senior positions.

Box 1 provides further detail.

## Box 1

### Summary of recommendations (priority recommendations in bold)

High level recommendations	Detailed recommendations	Terms of reference area <sup>(a)</sup>
<b>1 Designate a senior executive as 'Conflicts Officer' or similar, with responsibility for conflict arrangements under the Senior Managers Regime</b>	<p>(a) Responsibilities of the 'Conflicts Officer' should include:</p> <ul style="list-style-type: none"> <li>i Promoting the importance of conflict identification and management throughout the organisation, including at senior levels.</li> <li>ii Ownership of the Bank's conflict policies and the relevant parts of 'Our Code'.</li> <li>iii Ensuring conflict policies and their application are kept under regular review (including the Bank's policies on financial relationships/transactions). This will ensure that the Bank keeps pace with external best practice.</li> <li>iv Reporting on compliance with conflict policies, drawing on outputs from the compliance function.</li> <li>v Reporting on identification/management of conflicts at the statutory committees.</li> <li>vi Liaising on potential conflicts with relevant external stakeholders such as HM Treasury.</li> </ul> <p>(b) The Conflicts Officer should have a dual reporting line to the Governor and the Chair of Court in this aspect of their work.</p>	Reporting lines and internal structures
<b>2 Clarify the reporting requirements for personal relationships</b>	<p>(a) Mandatory reporting requirements should cover relevant information about a tightly defined category of close family relationships, extending to spouse/partner, parents, siblings and children. These should include scope for a derogation to cover exceptional circumstances.</p> <p>(b) The Bank should continue to require the disclosure of other close personal relationships that could reasonably give rise to (actual or perceived) decision-specific or situational conflicts. The Conflicts Officer should provide guidance, and be available to consult with individuals as necessary to help them decide whether such disclosure is required.</p>	Policies and processes
<b>3 Strengthen the practical understanding and awareness of conflict risk, especially for perceived conflicts</b>	<p>(a) Articulate clearly the nature of perceived conflicts, and take steps to strengthen the understanding of this internally and externally. This articulation should include a consistent definition of conflicts in the context of the Bank.</p> <p>(b) Take steps to ensure that the most senior decision-making committees in the Bank are leading by example with a consistent and robust approach to considering conflicts, including record-keeping. Chairs of committees should ensure that conflicts are the first standing item on the agenda.</p>	Policies and processes
<b>4 Ensure a consistent approach to deciding on conflicts, taking into account statutory requirements</b>	<p>(a) Policies should clearly delineate roles and responsibilities for taking decisions in relation to conflicts:</p> <ul style="list-style-type: none"> <li>i Individual employees should be responsible for full, timely and accurate disclosures.</li> <li>ii Others should decide whether these disclosures could represent a conflict, and how conflicts should be handled.</li> </ul> <p>(b) Regular updates should be given to all members of statutory committees to ensure they are clear about their statutory responsibilities with respect to conflict decisions.</p> <p>(c) All decisions on conflicts should be systematically documented in line with Bank record-keeping standards.</p>	Policies and processes
<b>5 Strengthen conflict checks at appointment, particularly for senior posts</b>	<p>(a) For Crown/Chancellor appointees, the Bank should have a structured role in pre-appointment conflict checks for candidates (internal and external); responsibility for the appointment would continue to rest with the Crown/Chancellor.</p> <p>(b) For Bank-led appointments, candidates (internal and external) should be routinely asked about conflicts during recruitment. Conflict checks should also be conducted upon internal role change. These checks should be systematically and consistently applied, particularly so at senior levels.</p>	Policies and processes

High level recommendations	Detailed recommendations	Terms of reference area <sup>(a)</sup>
6 Expedite the introduction of a centralised, electronic system for capturing, reviewing and analysing relevant data	(a) Improved centralised systems for capturing, reviewing and analysing relevant data should be introduced as promptly as possible, with appropriate protections for privacy. Implementation should be monitored by Court. (b) A tailored approach to data capture and review, with appropriate protections for privacy, will be required for statutory appointees/the most senior Bank officials. <sup>(b)</sup>	Compliance
7 Provide additional compliance support to the most senior officials	Statutory appointees/the most senior officials <sup>(b)</sup> should be required to attend annual, face-to-face, attestation meetings with the Conflicts Officer both upon appointment, and annually thereafter to ensure all relevant disclosures have been made.	Compliance
8 Upgrade the seniority of Head of Compliance role	The seniority of the Head of Compliance position should be upgraded, with a dual reporting line to a named senior executive and the Chair of Court's Audit and Risk Committee (ARCo).	Reporting lines and internal structures
9 Court to revisit executive responsibility for risk	Court to revisit executive responsibility for risk, and associated reporting lines, once both the new Deputy Governor for Markets and Banking and the Chief Operating Officer are in post.	Reporting lines and internal structures
10 Enhance oversight, including at Court	(a) Court should continue to approve all relevant changes to conduct policies, and receive periodic (eg at least annual) reports from the 'Conflicts Officer'. All material, senior-level, breaches should be reported in a timely manner to ARCo in the first instance. (b) For statutory policy committee members: i Court should be appropriately consulted in respect of relevant changes in circumstance post appointment. ii Court should review the content and implementation of policy committee codes of conduct at least annually.	Reporting lines and internal structures

(a) The Terms of Reference required the Review to consider three areas of the Bank's approach to conflict management: policies and processes; compliance; and reporting lines and internal structures.

(b) Members of Court and external members of the MPC, FPC and PRC are statutory appointments made by the Crown and the Chancellor respectively. We define the most senior Bank officials to be Executive Directors and above, excluding external members of statutory policy committees and Non-Executive Directors of Court.

# 1 Context for the Review

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This section provides some general reflections on the nature of conflicts of interest in the public sector, before turning to specific considerations in the context of the Bank of England.

The material in this section has benefited from background briefing provided to the Bank by the National Audit Office (NAO).<sup>(1)</sup> The Bank's Non-Executive Directors would like to express their appreciation to the NAO for its support. The Non-Executive Directors are also particularly grateful to Sue Gray, Director General of the Propriety and Ethics Team at the Cabinet Office, for her advice about how conflicts of interest at senior levels are managed within central government.

## 1.1 What is a conflict of interest?

There is no single definition of 'conflict of interest' in English law or in legislation governing the Bank's constitution or governance. 'Conflict of interest' is often used in corporate governance as an umbrella term to cover a wide range of situations where an individual may have an actual or potential conflict. These can include, for example:

- a conflict between an interest (eg a financial interest as shareholder or depositor in one company) and a legal duty owed to another person or entity (eg a fiduciary duty not to act in self-interest);
- a conflict between two duties (eg a duty of confidentiality owed to one company and a duty to act in the best interests of a competitor of or supplier to that company); and
- conflicts of loyalty more generally, where a person who makes (or influences) decisions may have competing loyalties between the organisation to which they owe a primary duty and some other person or entity.

Sources of conflicts can be direct or indirect interests (financial or otherwise) and, in some circumstances, personal relationships.

For the purposes of this Review we adopt the definition of conflicts developed by the NAO: 'A set of circumstances that creates a risk that an individual's ability to apply judgement or act in one role is, or could be, impaired or influenced by a secondary interest'.<sup>(2)</sup> This is similar to conflicts definitions used in other areas of the public sector.<sup>(3)</sup>

Discussions of conflicts of interest often cover potential conflicts and perceived (or apparent) conflicts, as well as actual conflicts. These terms are sometimes conflated. In this Review, we have adopted the following definitions:

- **potential conflict** — a set of circumstances where an individual has a secondary interest that could cause an actual conflict of interest to arise at some time in the future;
- **perceived (or apparent) conflict** — a set of circumstances where there *appears* to be a conflict of interest, but this is not in fact the case (or may not be the case).<sup>(4)</sup>

Policies and processes in the public sector often emphasise the risks of perceived conflicts. These can be as damaging as actual conflicts to the public trust on which government and organisations exercising regulatory

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(1) See <https://www.nao.org.uk/report/contribution-to-bank-of-england-review-managing-potential-conflicts-of-interest/>.

(2) National Audit Office (2015).

(3) For example, the Organisation for Economic Co-operation and Development (2005) defines a conflict of interest as follows: 'A conflict of interest involves a conflict between the public duty and the private interest of a public official, in which the official's private-capacity interest could improperly influence the performance of their official duties and responsibilities.'

(4) These definitions are consistent with those used by the Organisation for Economic Co-operation and Development (2005).

functions typically depend. As the Organisation for Economic Co-operation and Development (OECD) notes, this is due to 'the potential for doubt to arise about the official's integrity, and the integrity of the official's organisation'.<sup>(1)</sup>

## 1.2 Identification and management of conflicts of interest

Conflicts of interest are 'a common and unavoidable part of management that can arise in a range of situations and environments'.<sup>(2)</sup> The aims of conflict of interest policies and processes should not therefore be to eliminate conflicts entirely, but to identify and manage them appropriately.

Conflicts of interest are often highly context-specific, and can change over time. For example, a financial interest or close personal relationship can be a source of conflict in one aspect of an individual's role (say, in relation to a specific procurement decision), but have no bearing on other aspects of their work. Given the dynamic nature of conflicts, it is not possible to prescribe in advance all circumstances in which specific interests or personal relationships may present conflict risk. This is among the reasons why the convention in corporate governance in the United Kingdom is to adopt conflict policies that are based on a set of principles rather than on prescriptive rules.

To assist with the identification of conflicts, many public sector bodies routinely require their officials to disclose relevant financial and non-financial interests. Officials are also usually required to disclose relevant interests of close family relations such as their spouse/partner or children. Some public sector bodies also routinely require disclosure of close personal relationships between public officials and those actively involved in politics or working in the media; such disclosures typically reflect wider considerations such as the need for political neutrality and risks relating to information misuse, rather than conflicts of interest *per se*.

Once an individual has made relevant disclosures, it is typically the responsibility of others within an organisation to decide whether these can reasonably be regarded as representing a conflict, and, if so, whether steps to manage them are required.

The appropriate management approach for conflicts will depend on a number of factors, and should be proportionate to the nature and scale of the conflict, as well as the likely impact on an organisation's reputation or integrity. The OECD notes the need to pay 'particular attention' to at-risk areas and functions where conflicts are 'more likely to arise or to prove more damaging to organisational integrity and public confidence'.<sup>(3)</sup>

There are a number of common conflict management tools — ranging from disclosure to resignation — used in the private and public sectors. Some examples are set out in **Figure 1**. Adequate record-keeping is also a key aspect of effective conflict identification and management, and can help to maintain public trust.<sup>(4)</sup>

**Figure 1** Conflict management tools from disclosure to resignation



(1) Organisation for Economic Co-operation and Development (2005).

(2) National Audit Office (2015).

(3) Organisation for Economic Co-operation and Development (2005).

(4) Organisation for Economic Co-operation and Development (2005).

Senior managers have a particular responsibility to set the right 'tone from the top' in terms of ethics and conduct, including in the area of conflicts. As the Committee on Standards in Public Life puts it: 'the clearest and most powerful signals will always be the personal behaviour of senior managers, not what they say.'<sup>(1)</sup> Public sector regulators often also have a leadership role within their industries for setting ethical standards. Consequently this Review has had a particular focus on the management of conflict issues in relation to senior Bank officials,<sup>(2)</sup> externally appointed members of the statutory policy committees and Non-Executive Directors of Court.

### 1.3 Conflicts of interest in the context of the Bank of England

Within the Bank there is, as with any other public body, a range of generic circumstances that pose particular risk of actual, potential and perceived conflicts. These include: procurement; recruiting decisions; choice of counterparties; the acceptance of hospitality; and subsequent employment at a regulated or connected firm. Additionally, the Bank undertakes a range of commercial banking and market trading operations,<sup>(3)</sup> where inherent conflicts can arise if, say, front and back-office roles are not appropriately separated.

There are also specific circumstances in which conflicts may arise relating to the Bank's statutory position and its decision-making powers. Typically, these relate to a decision, particularly one that affects an individual institution or person directly. More rarely, a broader 'situational' conflict may arise, for example in the context of certain particularly close ongoing personal relationships (see Box 2).

Within the Bank, many institution-specific decisions are taken by the Prudential Regulation Authority (PRA), the Bank's main supervisory arm;<sup>(4)</sup> the PRA is also responsible for approving the appointment of key individuals to senior management positions in regulated firms. But there are a number of other ways in which the Bank's decisions can directly affect individual institutions or people, and therefore may give rise to (actual, potential or perceived) conflicts. For example:

- the decision to resolve a failing institution potentially affects not only the institution in question, but also its individual bondholders, shareholders or depositors;
- in certain circumstances, the Bank will use its balance sheet in a support operation for an individual financial institution, for example through the provision of Emergency Liquidity Assistance;
- not all of the Bank's supervisory responsibilities are located within the PRA. Statutory responsibility for the supervision of Financial Market Infrastructures such as payment systems and clearing houses is vested in the Bank;<sup>(5)</sup> and
- the Bank determines the access of individual firms to its Sterling Monetary Framework — which is used to implement monetary policy and to provide liquidity insurance in the event of system-wide shocks.

Decisions of 'general application' — ie those set on a system-wide basis<sup>(6)</sup> — are less likely to be associated with conflicts than direct decisions about individual companies or people. But there can still be a risk of (actual, potential or perceived) conflicts occurring. For example, 'general application' policies could potentially affect different institutions in a sector in different ways (say in a sector-wide recommendation made by the Financial Policy Committee (FPC)). Or, in the absence of effective conflict management policies, Monetary Policy Committee (MPC) decisions on Bank Rate could be perceived as being associated with the financial interests of individual members.

(1) Committee for Standards in Public Life (2013).

(2) Defined in this Review as Executive Directors and above, and excluding external members of statutory policy committees and Non-Executive Directors of Court.

(3) For example, the Bank provides customer banking services to over 100 central banks, and also carries out certain trading operations, eg on behalf of the Government.

(4) The PRA is responsible for the microprudential supervision of banks, building societies, insurers and major investment firms.

(5) In practice, the bulk of the Bank's FMI supervisory responsibilities are discharged through the FMI Board, chaired by the Deputy Governor for Financial Stability.

(6) Examples include decisions by the Financial Policy Committee on the countercyclical capital buffer and decisions by the Monetary Policy Committee on Bank Rate.

We note that actual, potential and perceived conflicts are not confined solely to individuals taking decisions. Those in close proximity to decision-making — including those who advise decision-making committees — can also be subject to conflict risk if they have a material influence on the decisions being taken by others.<sup>(1)</sup>

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(1) In the context of the Bank, for example, Governors' Committee (GovCo), which includes the Governor, the Deputy Governors and the Chief Operating Officer, meets on a regular basis to provide advice to the Governor on a range of decisions.

## 2 Policies and processes

This section reviews the policies and processes that the Bank has in place for identifying and managing conflicts of interest. It covers the scope and clarity of the relevant policies and processes, including those for senior Bank officials,<sup>(1)</sup> external members of statutory policy committees and Non-Executive Directors of Court. In accordance with the published terms of reference (Annex 1), it also considers relevant lessons in relation to conflict policies and procedures learned from the circumstances surrounding Ms Hogg's resignation (Box 4).

The Bank's conflict of interest policies have been significantly enhanced over recent years, in particular since the Bank acquired additional supervisory responsibilities under the Financial Services Act 2012. Additional impetus was provided by the first phase of the Bank's Strategic Plan, launched by the Governor in early 2014,<sup>(2)</sup> *Our Code*, in 2015 and further subsequent improvements. Nonetheless, aspects of the Bank's policies remain ambiguous — particularly in the area of personal relationships — and could be improved. There is also scope for strengthening some supporting processes.

### 2.1 Scope and clarity of conflict of interest policies

Between September 2014 and January 2015, the Bank overhauled its approach to its code of conduct, led by Ms Hogg in her role as Chief Operating Officer. It introduced a new overarching summary document — known as *Our Code* — and launched an annual attestation process. It also set out plans for a new central compliance function (Section 3).

In our view, the version of *Our Code* currently in use in the Bank<sup>(3)</sup> is a significant improvement on the disparate approach that preceded it. It provides access to a single summary document that outlines the relevant Bank policies ('conduct' policies),<sup>(4)</sup> gives some examples of how these might apply in practice, and explains the five core principles on which they are based.<sup>(5)</sup> It is designed to give an accessible overview of ethics and conflict issues, supplementing the more detailed policies that lie behind it.

The *Our Code* document is positively-framed, relatively short, clearly presented and emphasises the importance that the institution places on conflict issues. Its presentation and accessibility compares favourably with codes of conducts of comparable institutions. But its brevity means that the document does not contain all the relevant facts that individuals need to know to ensure that they are fully compliant.

*Our Code* is supported by detailed policy documents and those pertaining to conflict of interest issues ('conflict' policies)<sup>(6)</sup> extend to around 20 pages. While the detailed policies are wide-ranging and appropriately principles-based, some could be more explicit about what practical steps the Bank expects individuals to take to ensure full compliance.

Some aspects of the Bank's conflict policies are ambiguous and open to misinterpretation. This is particularly so in the case of the Bank's personal relationships policy, a focus of this Review, and where we recommend a number

(1) Defined in this Review as Executive Directors and above, including the Governors.

(2) The Bank's new 'One Bank' Strategic Plan, launched in 2014, placed a commitment to an 'open, transparent and agile' culture at the top of its list of fifteen core initiatives. See Carney (2014).

(3) The version of *Our Code* in use at the time of this Review was updated in September 2016; further enhancements are expected in the autumn of 2017 (see also Box 5).

(4) As well as conflict policies, *Our Code* also covers a broader range of conduct policies beyond the scope of this Review. These include: record keeping, freedom of information, press and media engagement, social media use, speaking engagements, data protection, information and cyber security, IT use, and anti-money laundering.

(5) The principles are integrity, inclusivity, impartiality, openness and accountability, and empowerment. These principles are aligned to the values in the 2014 Strategic Plan and are in accordance with the principles expected of senior managers in the firms that the Bank regulates. They are also aligned with the seven Nolan principles of public life which apply to anyone who works as a public office holder (Committee on Standards in Public Life (1995)).

(6) These cover: personal relationships; financial relationships; personal financial transactions; entertainment and gifts; directorships; political activity; community and charity roles; restricted duties; and whistleblowing.

of enhancements (see Box 2). For example, discussions with individuals carried out as part of this Review suggested an inconsistent understanding of policies across the Bank, especially in relation to some of the detailed requirements that are not included in *Our Code* summary document, but are instead contained within a number of separate supporting policies.

The Review has also considered other aspects of the Bank's conflict policies, including financial relationship and transaction policies (see also Annex 3). These require the disclosure of relevant financial relationships upon joining the Bank, prohibit some financial transactions completely (including acquiring securities of Bank-regulated firms), and require pre-authorisation of a wide range of others. Additional requirements are in place for the most senior officials, and for external members of statutory policy committees and Non-Executive Directors of Court.

While we consider the Bank's financial relationship and personal financial transaction policies to be comprehensive in scope, we recognise that this is an important area of effective conflict management (both actual and perceived). The Bank has previously reviewed these policies on a regular basis, and it should continue to do so. We recommend that this is among the responsibilities of the proposed 'Conflicts Officer' (see Section 4).

We also note the need to clarify the application of *Our Code* to the Non-Executive Directors of Court. The current drafting of *Our Code* is ambiguous in this respect.<sup>(1)</sup> Our view is that *Our Code* should be applicable to everyone, including Court's Non-Executive Directors, but that there needs to be appropriate and explicit derogation to reflect fully that Court Non-Executive Directors are not employees of the Bank and will typically have primary duties elsewhere.

Section 2.3 and Annex 2 provide further detail on the statutory-based codes of conduct maintained by the Bank for its three main policy committees (MPC, FPC and PRC), as well as the Court Code of Business Ethics and Conflicts.

## 2.2 Identification of conflicts

Conflicts will tend to vary over time and be context-specific (Section 1). So policies and processes should facilitate the timely and systematic disclosure of all relevant information, particularly at key points in the employment 'life cycle', such as when individuals join an organisation or change roles.

At the Bank, disclosures are typically made (a) on appointment to the Bank and on subsequent appointment to a new role; (b) when circumstances change; or (c) at the time of the annual attestation process (see Section 3). This three-pronged approach to the declaration process is consistent with the practice adopted by most UK public institutions.<sup>(2)</sup> Bank-wide reminders are another way that the institution prompts relevant individual disclosures.

### (i) Conflict identification for Bank staff<sup>(3)</sup>

In terms of recruitment, there are a number of positive features of the Bank's existing procedures. Most roles in the Bank are filled by a formal recruitment process and the application form used (completed by both internal and external applicants) explicitly asks candidates to identify any potential conflict risks.<sup>(4)</sup> The information provided by candidates is seen by the lead recruiter and the interview panel.

At present, however, there is no explicit duty placed on the lead recruiter or line manager to consider conflicts as part of the recruitment process. Responsibility lies entirely with the candidate to highlight any issues. This may be a weakness given that the candidate may have incomplete knowledge of the role that they have applied for and the nature of conflicts (actual and perceived) that can arise within the Bank. This may also be an issue for internal role changes as different roles within the Bank can be associated with different types of conflict risk.

(1) The current version of *Our Code* is not explicit about its applicability to Court's Non-Executive Directors, stating: '*Our Code* applies to all of us: Governors, MPC, FPC and PRA Board members, and colleagues from across the full range of the business'.

(2) For discussion of the approach taken in the broader public sector, see National Audit Office (2017).

(3) In this Review 'staff' refers to individuals employed by the Bank, and excludes statutory appointees. Statutory appointees are members of Court (appointed by the Crown) and external members of policy committees (appointed by the Chancellor). We use the term 'Bank official' to mean Bank staff plus Governors.

(4) This covers a range of issues including personal relationships within the Bank and at other relevant institutions, as well as social media use, political activities, and directorships.

## Box 2

### Reporting requirements for personal relationships

The Bank's current reporting requirements for personal relationships<sup>(1)</sup> are wide and, in some respects, at risk of misinterpretation. This carries a risk of inadvertent non-disclosure — individuals may believe they are compliant with the Bank's requirements when in fact they are not. For example, staff are currently expected to disclose nieces and nephews who work in regulated firms. This applies regardless of the nature of those individuals' roles and it is not immediately apparent from the policies whether this requirement extends to the nieces and nephews of a spouse.

We recommend that the Bank mandates the disclosure of relevant information about a tightly defined category of close family relationships extending to spouse or partner, parents, siblings and children.<sup>(2)</sup> This relevant information should be clearly defined.<sup>(3)</sup>

There will also be circumstances where other close personal relationships may give rise to a risk of (actual or perceived) conflict. Typically, this will be in the context of a specific decision. An example could be a PRA supervisory decision to approve a relative such as an aunt or uncle as a board director of a bank. Occasionally, the nature and proximity of the relationship and the respective roles of the individuals in question mean that there will be an inherent risk of (at least a perceived) conflict — we term this a 'situational' conflict. An example would be if a member of the PRC holidays regularly with the Chief Risk Officer of a major insurance company. Relationships within the Bank can also give rise to conflicts (including situational conflicts). An example would be if the Head of HR had a close relative who was also employed by the Bank in a senior management position.

In addition to the proposed mandatory disclosure category, we therefore also recommend that the Bank continues to require the disclosure of close personal relationships that could reasonably be expected to give rise to such decision-specific and situational conflicts (actual and perceived). The proposed Conflicts Officer<sup>(4)</sup> should provide guidance, and be available to consult with individuals as necessary to help them decide whether such disclosure is required.

It is impossible to anticipate and define precisely the circumstances in which personal relationships may be associated with decision-specific and situational conflicts. The need to exercise judgement in these cases is inherent in the UK public sector's principles-based approach to conflict management. However, we would make the following observations in relation to personal relationships beyond the proposed mandatory reporting category:

- conflicts are most likely to occur in the context of particularly close, ongoing, personal relationships;
- conflicts are more likely to arise when there is a personal relationship between individuals who are both senior within their respective organisations;
- such personal relationships are more likely to be a source of conflict in decisions involving individual companies or people (eg supervisory judgements or procurement decisions) than they are in decisions of 'general application' — that is, decisions set on a system-wide basis;<sup>(5)</sup> and
- situational conflict risk (conflict risk that is broader than that associated with a specific decision) arising from these relationships is likely to occur relatively rarely.

(1) The Bank currently requires all individuals to disclose 'close personal relationships that could be perceived as creating a conflict of interest or unfair advantage'. For full details of the personal relationships policy, see: [www.bankofengland.co.uk/about/Documents/humanresources/personal.pdf](http://www.bankofengland.co.uk/about/Documents/humanresources/personal.pdf).

(2) This category of family members is broader than the category of family who are within the Companies Act 2006 definition of 'connected person' which does not, for example, cover siblings. The mandatory reporting requirements should include scope for derogation in exceptional circumstances where an individual could not reasonably be expected to be aware of a relative's personal situation (eg family estrangement).

(3) For example, officials should be required to report when these close relatives work for a Bank-regulated firm.

(4) Or as appropriate, their designate.

(5) For example, FPC decisions on the countercyclical capital buffer, or MPC decisions on Bank Rate.

There are also processes in place to encourage relevant disclosures upon appointment. For example, new joiners are asked to read the policies covered by *Our Code*, make the necessary declarations in the Bank's HR systems, and attest stating that they are compliant. This is supplemented by formal training on conflict policies given to all staff as part of the Bank's induction programme, which has been recently enhanced. This is welcome and it may also be appropriate for internal appointees to roles with an inherent degree of conflict risk to receive locally tailored 'on-boarding' training in this area.

Processes also need to be in place to capture change of circumstances, such as a new personal relationship or financial transaction, that may give rise to a new conflict risk. As the National Audit Office notes,<sup>(1)</sup> responsibility for disclosing relevant changes in circumstances must lie with the individual concerned. But an institution must make clear what expectations it has in this respect. While the Bank's underlying conflict policies note the need to notify managers of relevant changes in circumstances, this requirement could be made more explicit — for example, in the overarching *Our Code* document.

## (ii) Conflict identification for senior Bank officials and statutory appointees

The most senior Bank appointments are typically made by the Crown (for Court members) or the Chancellor (for external members of statutory policy committees). The appointment process for these positions is led by HM Treasury. It therefore has an important role to play in identifying any potential conflict risks at the outset.

Prospective candidates are typically asked to declare possible conflicts on the HM Treasury application form. Although this process has been followed for some time, the support provided by HM Treasury, the Bank and any relevant executive search firm in respect of disclosures to be made by individual candidates has in the past been variable. This has created a risk that relevant information may not be fully surfaced or considered prior to an appointment being made and announced.

Significant improvements have been made to this process since Ms Hogg's resignation. Specifically, there has been a greater degree of co-ordination between HM Treasury and the Bank to ensure that initial conflict checks are robust and consistent with the Bank's policies. This is welcome and we recommend that these arrangements are made permanent.

The Bank is responsible for appointing two members of the statutory committees<sup>(2)</sup> and for the appointment of the Chief Operating Officer. Here too, processes for identifying possible conflicts during both the recruitment process and upon appointment need to be consistently applied. We note, however, that there has been appropriate strengthening of process for the recruitment of the new Chief Operating Officer.

Following appointment, senior Bank officials<sup>(3)</sup> and all statutory appointees meet with the Head of Compliance and/or the Secretary of the Bank to discuss the requirements of *Our Code* and any additional financial declarations that are required. These face-to-face meetings provide a useful opportunity to discuss declarations and for officials to receive advice on conflict risk and their personal circumstances. The rigour of these conversations and the breadth of topics covered have improved over the past year. There may be scope to formalise and/or combine these meetings to ensure they are as comprehensive as possible.

Historically, these face-to-face 'on-boarding' meetings have been held for all senior individuals who have been recruited externally, but not all internal appointees. We recommend that these should also be consistently held for senior internal appointees, given that the conflict risk associated with their new role may be different to that associated with previous positions.

## 2.3 Deciding on conflicts and conflict management

Once appropriate disclosures have been made, clear procedures should be in place to evaluate them, to decide whether they give rise to conflicts and, if necessary, to take appropriate steps to manage them. This section

(1) National Audit Office (2017).

(2) Executive Director, Monetary Analysis & Chief Economist (who is a member of the Monetary Policy Committee) and Executive Director, Financial Stability Strategy and Risk (who is a member of the Financial Policy Committee).

(3) Executive Directors and above.

## Box 3

### Examples of conflict management in Bank business areas

Business area	Example of conflict management	Strengths
Prudential Regulation Authority — personal relationships	Personal relationships can exist between individual PRA regulators and employees of the 1,500 or so institutions they regulate and these can require management. Typically, local action plans are put in place depending on the nature of the regulator's role and the relationship. Examples include disclosing any social interactions during a period of heightened supervision, ensuring dual decision making or restricting information as necessary.	Differentiated and proportionate approaches in higher-risk situations
Prudential Regulation Authority — lower level committees	When making statutory decisions, the Supervision, Risk, and Policy Committee (which sits below the statutory Prudential Regulation Committee) usually opts for small groups of decision-makers (three to five people) which means they can ensure members are not conflicted. The following would be excluded from decision making: a member who had a close and relevant family connection with the firm in question; a member who was financially linked to the firm; or a member who had recently been involved in its supervision. These members would not receive the papers and minutes.	Clear and consistent application of policies to remove conflict risk in decision making
Markets Directorate — corporate bond purchases	In August 2016 the MPC announced a policy package that included the purchase of up to £10 billion of corporate bonds. The Bank's Markets area designed and implemented the scheme. There was an increased risk of potential conflicts of interest given the wide range of bonds purchased. To mitigate these new risks, the local area introduced additional checks and guidance in relation to declaration and reporting criteria.	Ability to adapt to changing nature of risks and put in place appropriate mitigation

considers current Bank processes for deciding on and managing conflicts, focusing first on the processes in place for staff, and then on arrangements for the statutory policy committees and Court.

#### (i) Conflict management and Bank staff

At the Bank, once individual disclosures have been made, conflict decisions are usually taken by the relevant manager, in consultation with a more senior official or the Secretary's Department as appropriate. This approach is consistent with the best practice seen in other institutions. However, the effectiveness of this process depends not only on relevant disclosures being made by individuals in the first place, but also on the ability of managers to consider the matter appropriately.

We identified a number of examples of good working-level practices where management tools have been appropriately deployed to manage conflict issues. Some of these are highlighted in Box 3. Local managers should continue to be empowered and supported to develop such additional requirements for identifying and managing conflicts in higher-risk situations. This needs to be done more consistently (ie in the same way across different parts of the Bank) and should continue to draw on the support of centralised functions.

We also found scope to improve the understanding of roles and responsibilities in some parts of the organisation, particularly with respect to line managers. We recommend the Bank reviews its policies to ensure that roles and responsibilities for taking conflict decisions are more clearly delineated, and that training is provided where required (we note that there have been recent improvements in training for new line managers). Decisions on conflict issues should be consistently documented in line with Bank record-keeping standards.

#### (ii) Conflict management at statutory policy committees and Court

There are legal requirements on the statutory policy committees in respect of conflict of interest identification and management (see Annex 2). Members are responsible for declaring any interests in any dealings or business being considered in advance of, or at the latest at the start of, the relevant committee meetings. But it is for the committees to decide whether a declared interest represents a conflict, and if so, what mitigation is appropriate.

There have been a number of examples of conflicts being effectively managed. For example, in 2014 there were two such cases involving members of the FPC, which were set out in the published records of the committee's meetings:

- Clara Furse, who was then a Non-Executive Director of Nomura Holdings Inc., was considered to have an indirect interest in the leverage ratio review given the possible implications for Nomura's UK-regulated entities.

The FPC decided that Ms Furse should participate in preliminary discussions about the issue in order to benefit from her expertise, but agreed that she would recuse herself from decisions on its initial and final proposals.<sup>(1)</sup>

- Richard Sharp, who was Chief Executive of DII Capital, an FCA-regulated investment adviser, recused himself, with the agreement of the FPC, from discussions and decisions relating to whether FCA-regulated firms should be within scope of the leverage ratio framework.<sup>(2)</sup>

Following changes in 2016 to the Bank of England Act 1998 ('the Bank of England Act'), the Bank is now obliged to maintain a code of practice relating to conflicts of interest for all three committees. These 'Conflict Codes' provide clear guidance on the process for identifying, declaring and managing conflicts.

Since the resignation of Ms Hogg, the Bank has also introduced a more robust regime for the identification, declaration and management of conflicts at its statutory policy committees (see Box 5). This includes improved record-keeping for relationships, interests and conflicts for each committee member, as well as new guidance for policy committee secretariats. Information about conflicts is circulated to members ahead of policy meetings for review, and conflicts are discussed as the first agenda item at all policy committee meetings. These measures are welcome and have helped to create a consistent approach across the three committees. They should be maintained going forward.

The Bank's Court of Directors follows, to the extent practicable, the UK Corporate Governance Code, including in the area of conflict management. It also follows the principles set out by the Committee on Standards in Public Life. It has its own published approach to managing conflicts,<sup>(3)</sup> which sets out among other things how conflicts are considered at Court meetings (see also Annex 2).

We note there have been numerous instances where Court has identified and managed conflicts in line with its published approach. These include:

- the recusal of Dave Prentis (a Non-Executive Director of Court) from discussions on the Co-operative Bank in light of his connection with Unity Trust Bank;<sup>(4)</sup> and
- the recusal of John Stewart (formerly a Non-Executive Director of Court) from elements of meetings<sup>(5)</sup> in 2014 and 2015 in relation to Legal and General, of which he was then Chair.

The need for recusals is normally identified when the agenda for the Court meeting is set. This occurs in meetings between the Chair of Court and the Secretary of the Bank, to whom the relevant personal and financial declarations would have been made.

(1) Record of the FPC meetings on 17 and 25 June 2014, [www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2014/record1407.pdf](http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2014/record1407.pdf); and Record of the FPC meeting held on 15 October 2014, [www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2014/record141031.pdf](http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2014/record141031.pdf).

(2) Record of the FPC meeting held on 15 October 2014; [www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2014/record141031.pdf](http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2014/record141031.pdf)

(3) Matters Reserved to Court: [www.bankofengland.co.uk/about/Documents/pdfs/court/matters.pdf](http://www.bankofengland.co.uk/about/Documents/pdfs/court/matters.pdf).

(4) Mr Prentis is President of the Unity Trust Bank. See, for example, the minutes of the May 2017 Court, available at [www.bankofengland.co.uk/publications/minutes/Documents/court/court1705.pdf](http://www.bankofengland.co.uk/publications/minutes/Documents/court/court1705.pdf).

(5) Including the following Court meetings: October 2014, December 2014, February 2015 and July 2015.

## Box 4

### Process shortcomings and the resignation of Charlotte Hogg

On 14 March 2017, Charlotte Hogg resigned from her post as the Bank's Deputy Governor for Markets and Banking and Chief Operating Officer. She had held the Deputy Governor post since early February 2017 and that of Chief Operating Officer since July 2013. The events that led up to Ms Hogg's resignation highlight some shortcomings with the Bank's approach to identifying and managing possible conflicts of interest. This box focuses on the relevant lessons.

#### Background

Ms Hogg joined the Bank in July 2013 from Santander where she had been Head of Retail and Intermediaries. She was recruited to the newly created post of Chief Operating Officer, a senior position equivalent to that of a Deputy Governor. In December 2016, she applied for, and was subsequently appointed to, the position of Deputy Governor for Markets and Banking. In early February 2017, Ms Hogg's new position was announced, and it was confirmed that she would continue as Chief Operating Officer alongside her new responsibilities.

In late February 2017, Ms Hogg had a pre-appointment hearing with Parliament's Treasury Committee. She disclosed on the requisite Treasury Committee form that her brother held a position at Barclays (a Bank of England regulated firm). She had not made a formal declaration of this to the Bank, a breach of the code of conduct — *Our Code*. On 14 March 2017, the Treasury Committee issued a report<sup>(1)</sup> that was critical of both this breach and Ms Hogg's response. Ms Hogg subsequently resigned from the Bank.<sup>(2)</sup>

#### Lessons learned

*Our Code* makes plain that it is the individual's duty to make any necessary declarations regarding personal relationships which could lead to a real or perceived conflict of interest. In her letter to the Treasury Committee dated 2 March 2017,<sup>(3)</sup> Ms Hogg accepted that her brother's role at Barclays should have been declared under *Our Code*, and her responsibility for failing to do so.

However, the case also raises some broader questions about the Bank's approach to, and processes for, identifying and managing conflicts, including circumstances that could give rise to a perception of conflict. **Figure 2** sets out the main process shortcomings. A number of these have a wider applicability across the Bank, as detailed in the body of this Review.

In particular the case highlights:

- (a) **The need for clearer articulation — internally and externally — about how conflicts might arise in the context of the Bank's business, and how they should be managed.** Particular attention should be paid to circumstances that could give rise to perceptions of a conflict, especially for individuals in senior roles. More generally, while it is the responsibility of the individual to provide full, timely and accurate disclosures, decisions on whether those disclosures risk being perceived as a possible conflict should be made by others (taking into account statutory requirements).<sup>(4)</sup>
- (b) **Potential shortcomings in the recruitment process for roles on statutory committees.** Bank Governors are appointed by the Crown, with the recruitment process led by HM Treasury. Candidates are required to complete a HM Treasury application form, including a conflicts of interest section. Prior to Ms Hogg's resignation, there was no requirement for the Bank's detailed conflict policies to be explicitly considered during the recruitment process or by the interview panel. Nor was there a consistent approach taken when liaising with the Bank on possible conflicts. We note that there have been improvements to this process for the recruitment of Ms Hogg's successor(s), with a more structured approach taken to conflict checks pre-appointment.

(1) <https://www.publications.parliament.uk/pa/cm201617/cmselect/cmtreasy/1092/1092.pdf>.

(2) [www.bankofengland.co.uk/publications/Documents/news/2017/028.pdf](http://www.bankofengland.co.uk/publications/Documents/news/2017/028.pdf).

(3) <http://www.parliament.uk/documents/commons-committees/treasury/correspondence/charlotte-hogg-to-treasury-committee-chair-02-03-17.pdf>.

(4) In the case of the statutory policy committees (MPC, FPC, PRC), the decision on whether an interest represents a conflict is reserved, by statute, to the committees.

Figure 2 Relevant process shortcomings

Observation	Event	Learning points
The Bank's established HR processes for 'on-boarding' new joiners were not followed, and initial conflict declarations were made via a brief exchange of emails with the then Chair of Court.	Appointment as Chief Operating Officer (July 2013)	Inconsistent application of HR procedures increased the risk that incomplete personal relationship disclosures were made.
The summary <i>Our Code</i> document lacked clarity on declaration requirements for personal relationships, and relied on individuals consulting the underlying policy for detail. However, this underlying policy was clear about the need to declare a sibling who works at a Bank-regulated firm.	Launch of <i>Our Code</i> (2015)	The <i>Our Code</i> summary document should have set out clearly the Bank's requirements on relationship disclosures.
The Bank requires annual attestation to <i>Our Code</i> . These attestations are carried out through an online tool which is not linked to the HR system where relevant declarations need to be made.	<i>Our Code</i> attestation process 2015 and 2016	The attestation process did not ensure that individuals reviewed their declarations before attesting to their completeness. This risked undermining the effectiveness of the process.
Deputy governorships are Crown appointments, with the process led by HM Treasury. Ms Hogg completed the conflicts of interest section of the Treasury application form, declaring roles held by her parents and her husband, but not her brother. This section of the form was not shared with the appointment panel for Ms Hogg, which included two non-executive directors of the Bank's Court.	Application for Deputy Governor role	The Treasury-led appointment process captured information in relation to potential conflicts of interest, but did not require these to be considered by the appointment panel.
Ahead of Treasury Committee pre-appointment hearings, individuals are required to complete a questionnaire, including a conflicts section. Ms Hogg raised the question of her brother's role at Barclays and, following consultation with the Bank's Secretary, declared this on the Treasury Committee form.	Preparation for pre-appointment hearing with the Treasury Committee	No check was made to ensure that the information provided by Ms Hogg was consistent with that recorded on the Bank's systems. More generally, there was insufficient focus on the risk that her brother's role could be perceived as a possible conflict.

- (c) **The risks inherent in not applying established HR processes to all personnel.** The usual 'on-boarding' HR processes were not followed when Ms Hogg joined the Bank in 2013. This was not atypical for such a senior appointment at the time. Specifically, conflicts appear to have been dealt with in the first instance via an informal exchange of emails with the then Chair of Court (we note that there have been material improvements in relevant processes since then). A more structured approach may have resulted in Ms Hogg's brother's role being registered at the outset.
- (d) **Shortcomings in Bank systems for ensuring compliance with codes and generation of meaningful management information.** There is no suggestion that limitations with Bank IT systems were a factor in the non-disclosure of Ms Hogg's brother. However, Ms Hogg's case illustrated some shortcomings in this area, and broader work undertaken as part of the Review revealed widespread difficulties and dissatisfaction with this aspect of the Bank's HR system, which is ageing and has poor functionality.

# 3 Ensuring compliance

This section reviews the Bank's arrangements for ensuring full and timely compliance with the relevant aspects of *Our Code* and the underlying conflict policies, especially among senior officials and statutory appointees.

Compliance with the policies underlying *Our Code* is supported by an annual attestation process. However, the systems underpinning the Bank's wider compliance processes have some material shortcomings (Section 3.2). Improved central systems for capturing, reviewing and analysing relevant data should be introduced as promptly as practicable.

## 3.1 The Bank's compliance function

From the outset of the development of *Our Code* in 2014/15, the Bank recognised the need to strengthen its arrangements for monitoring and enforcing compliance. A central compliance function ('Compliance') was set up during 2015 and early 2016, with a remit to, among other things:

- promote the Bank's culture of integrity, raising awareness of *Our Code*, and supporting local business areas in doing so;
- monitor and investigate levels of reporting and compliance with *Our Code*, working with central risk management functions and local business areas;
- perform in-depth reviews and make recommendations about the adequacy and effectiveness of *Our Code* policies and related systems and controls; and
- escalate significant concerns or issues and support appropriate remedial action (where necessary) including disciplinary processes.

In respect of conflicts of interest, the work of Compliance to date has primarily been focused on taking steps to embed *Our Code*, strengthening the robustness of the accompanying attestation process and organising training regarding individual obligations. Correspondingly, its programme of day-to-day detailed compliance monitoring is still at a relatively early stage.

Some compliance activities in respect of conflicts of interest are also currently carried out by Secretary's Department, owners of the underlying conflict policies.<sup>(1)</sup> For example, Secretary's Department currently carries out an annual exercise to validate personal relationship disclosures and ensure that any necessary mitigating actions have been put in place. As the compliance function becomes further embedded, there is scope to revisit and more clearly articulate respective roles and responsibilities in this area. This includes in light of our recommendation for the appointment of a 'Conflicts Officer' (Section 4).

(1) We have also observed, that some business areas — typically those where there is a higher risk of conflicts of interest arising — also operate local compliance processes with respect to conflicts policies. We consider this to be appropriate, provided that it is co-ordinated with central compliance activities as needed.

## 3.2 Processes and systems supporting compliance

Organisations need to gain assurance that their policies are understood, are adhered to, and are effective in protecting the propriety and integrity of decision-making.<sup>(1)</sup> The Bank supports this in a variety of ways, including tailored arrangements for the most senior officials, external members of committees and Non-Executive Directors of Court.

### (i) Annual attestation process

Since the introduction of *Our Code*, the Bank has asked all staff, Governors, external members of committees and Non-Executive Directors of Court to attest. They attest that they have read *Our Code*, complied with the appropriate declaration requirements, understood the importance of the policies and adhered to the principles. The annual attestation is a welcome development, and is in line with best practice. To help strengthen the attestation process, the Bank has run a number of useful initiatives to raise awareness prior to the deadline for attesting. These included the use of Bank-wide communications about *Our Code* and the underlying policies. The electronic survey tool used to collect attestations also includes an additional facility for individuals to raise questions, comments or concerns. This received more than 100 responses allowing for tailored advice to be provided.

In 2016, 100% of those asked to complete the questionnaire attested within a week of the deadline.<sup>(2)</sup> This was aided by the actions detailed above which helped gain staff interest and engagement.

Work undertaken as part of this Review suggests that there is scope for further improvements to the attestation process, however. The introduction of accompanying online conflicts training would help reinforce the attestation process, for example, and would bring the Bank in line with numerous other organisations. The attestation software also has some weaknesses. In particular, it is not linked to the HR system in which individuals record their declarations (see below). This means that individuals are not automatically prompted to review what they have declared before stating they are compliant. Following Ms Hogg's resignation, the Bank has initiated a review of the annual attestation process with the aim of making it more dynamic, intuitive to use and, therefore, more effective (see Box 5).

### (ii) Systems for capture and review of relevant data

Effective capture and review of the information disclosed by staff is essential to ensuring compliance. The use of electronic systems for this purpose is standard practice at many institutions.<sup>(3)</sup> While a good electronic system is not in itself sufficient for creating an effective compliance culture, a poor system can hamper one. From the outset of the development of *Our Code*, it was clear that the Bank would need to invest in such systems to support its work. Plans to do so were deferred in late 2015 however, and the Bank has had to rely on its ageing HR IT system — 'HRConnect'.

HRConnect is effective in some respects, such as facilitating the approval of personal financial transactions. But discussions with individuals at all levels of the Bank carried out as part of this Review revealed widespread frustration about its limitations. For example:

- line managers cannot view data for their own staff and are not automatically notified when an individual makes a new disclosure, such as a new personal or financial relationship;
- the system is not user-friendly for those making disclosures or seeking approvals. As a result, many reporting/ approval requests need to be followed up by Secretary's Department to obtain the correct information and input it into the system;
- there is limited capacity to run reports or provide analysis of trends/real-time data or retrospective reporting. It can be therefore difficult to answer basic questions quickly, such as how many staff have a personal relationship with individuals at a particular bank; and
- system changes have to be made by the third-party provider; these can be expensive and take time.

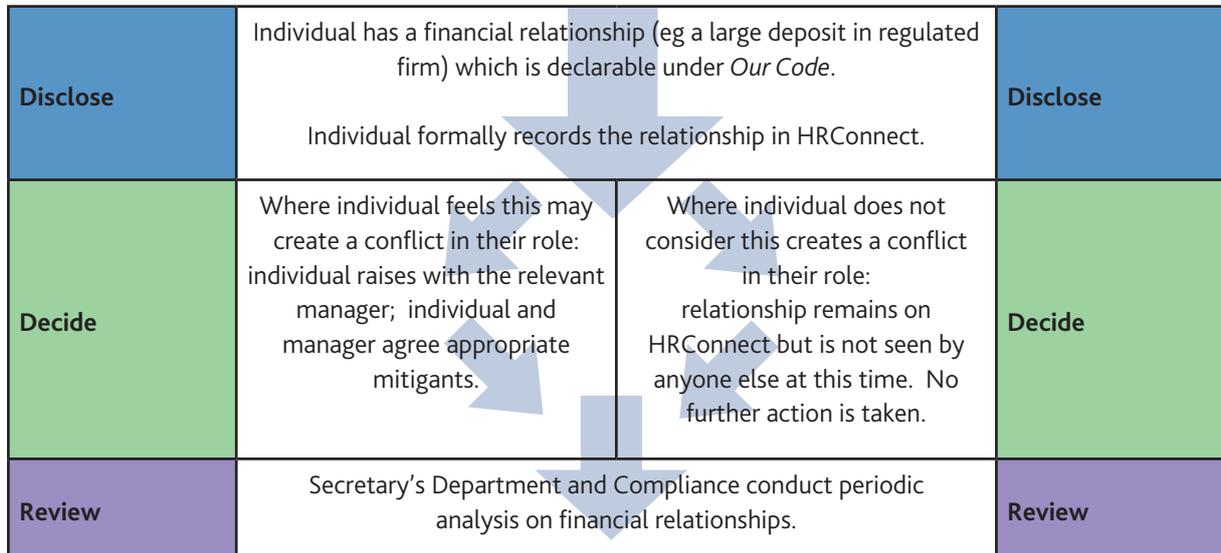
(1) National Audit Office (2017).

(2) This figure excludes contractors. 2016 was the first year that contractors were required to attest and there were concerns among some related to their status as contractors that resulted in several not attesting. All outstanding cases have since been resolved.

(3) National Audit Office (2017).

In some cases, effective manual workarounds have been put in place to address some of the system's shortcomings. An example is the annual validation exercise on personal relationship disclosures currently carried out by Secretary's Department. But in other areas of conflict management, there remains a risk that managers are not aware of disclosures made by their staff in Bank systems. This is illustrated in **Figure 3**, which summarises the process for reporting and reviewing pre-existing financial relationships for staff below Executive Director level.

**Figure 3** Process for declaring and reviewing financial relationships



We recommend that the Bank should expedite the introduction of a centralised, electronic system for capturing, reviewing and analysing relevant data, including breaches of policy requirements. This must include appropriate protections for privacy. It is likely, given the more onerous disclosure requirements and the sensitivity of some of the information collected, that a tailored approach to data capture and review will continue to be needed for the Bank's most senior officials/statutory appointees. Again, this should have appropriate protections for privacy.

**(iii) Senior-level arrangements**

There are tailored arrangements for capturing the information disclosed by senior Bank officials, as well as for external members of policy committees and Non-Executive Directors of Court (see Annex 3 for detailed requirements). The Secretary of the Bank maintains a paper record of relevant declarations. Given the sensitivity of the detailed disclosures required, this arrangement seems appropriate, and has been generally effective in ensuring appropriate actions are taken in a timely manner.

In addition to disclosing information to the Secretary of the Bank, senior Bank officials plus external members of policy committees are also obliged to make certain declarations in HRConnect. We consider that it would be more effective if this duplication in disclosure was removed and a single 'repository' of disclosed information maintained.

Senior officials/statutory appointees also receive *ad hoc* support and informal advice from the Secretary of the Bank and the General Counsel. Structured discussions conducted a part of this Review suggested that this advice was highly valued. However, it is apparent from the events that led to this Review that some further support would be desirable; conversations with senior officials/statutory appointees suggest that this would be welcomed. We therefore recommend that — in line with the approach taken in other organisations — all senior Bank officials, external members of policy committees and Non-Executive Directors of Court have a face-to-face meeting with the Conflicts Officer both on appointment and at least annually thereafter. This would provide opportunity for full review of an individual's existing declared interests and allow individuals to obtain advice about what needs to be disclosed.

## Box 5

### New measures introduced since Charlotte Hogg's resignation

Following the resignation of Charlotte Hogg on 14 March 2017, the Bank introduced a number of measures in regards to its code of conduct, led by the General Counsel:

- the declarations of the senior leadership team and external policy committee members have been reviewed to provide assurance that all those required have been made and are up to date;
- further guidance has been given to Bank staff to help them assess whether their declarations are up to date and a review of the annual attestation process — aimed at making it more dynamic, intuitive, and therefore effective — is under way;
- the process for declaring relationships, interests and conflicts on the three statutory policy committees (MPC, FPC, PRC) has been strengthened with a view to ensuring a more robust and consistent approach to conflict management across the committees;
- a framework to ensure that breaches of conduct and ethics requirements are managed consistently and proportionately has been circulated to all staff (see also Box 6); and
- an evaluation of *Our Code* with a view to ensuring the policies are accessible to, and understood by, Bank staff is under way. The work will also take account of the findings of this Review.

We welcome these steps which represent appropriate improvements in working practices, and note the importance of ensuring these changes become fully embedded through the organisation.

### 3.3 Breaches of conflict policies

It is important, both for mitigating potential conflicts, and for instilling among individuals the importance of complying with their obligations, that there are clear mechanisms in place to ensure appropriate disciplinary action is taken in the event of non-compliance.

Prior to Ms Hogg's resignation, the processes and guidance in relation to managing breaches of *Our Code* were limited, and had not been widely communicated. Since then, guidance has been shared with all staff and senior officials, which explains how the Bank manages breaches of its conduct policies (summarised in Box 6). This has enabled Compliance to take a more central role in co-ordinating responses to breaches and should help to facilitate more insightful reporting and management information. This is a welcome development. It will be important that the Bank provides further training and guidance as needed, to ensure that all individuals are aware of their responsibilities in this area.

## Box 6

### The Bank's approach to reporting and handling breaches

Whenever a breach occurs, those involved are responsible for informing their managers promptly. While the responsibility rests with the individual first and foremost, other colleagues are encouraged to highlight concerns, either to the colleague in question, or directly to the manager.

Managers are required to consider conduct breaches on a case-by-case basis, and calibrate the response to the circumstances of the breach and the individual. The Bank stresses that it does not have a 'one strike and you are out' approach for an honest mistake. In every case, the approach is based on the importance of working openly and honestly and supporting those who take responsibility promptly.

For minor conduct breaches (eg in the case of an honest lapse of attention or judgement) it is noted that an informal response — ie no formal disciplinary proceedings — may well be sufficient and can be resolved at the local level, but these must still be reported to Compliance.

In the event of a more serious breach, managers must engage promptly with Compliance for support before proceeding. Compliance then work with other central functions (eg Human Resources, Information Security Division etc) to help the manager determine the appropriate response.

## 4 Reporting lines and internal structures

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Appropriate reporting lines and internal structures are important for both organisational effectiveness and the exercise of sound oversight. This section reviews the reporting lines and internal structures in respect of the Bank's conflict policies and processes. This includes, as required by the terms of reference, consideration of the extent to which the changes to reporting lines and internal structures announced by the Bank on 14 March 2017 are adequate.

The changes announced by the Bank on 14 March clarified executive responsibility in the area of conflict management in a number of ways, and have proved adequate interim arrangements. But there remains no single point of executive accountability for conflicts of interest, and we recommend that this is rectified. Specifically, we recommend that the Bank designates a senior executive as responsible for all aspects of conflict of interest identification and management — and enshrines this within its application of the Senior Managers Regime.<sup>(1)</sup>

### 4.1 Executive responsibility prior to 14 March 2017

The Bank's reporting lines and internal structures have evolved over time. This reflects, in particular, the major changes introduced in respect of *Our Code* and a new central compliance function during 2015 and 2016. This section focuses on the period from late 2014 (when *Our Code* was being developed) up to Ms Hogg's resignation in March 2017.

#### (i) *Our Code* and underlying conflict policies

As set out more fully in Section 2, the Bank's main conduct policies are summarised in *Our Code*. This is supported by a range of underlying and more detailed policy documents, each of which has an assigned owner. The Chief Operating Officer held the responsibility for the development of *Our Code* in late 2014 and early 2015. However, following launch in June 2015, it was unclear where executive responsibility for *Our Code* lay. This was clarified following Ms Hogg's resignation (Section 4.2).

The detailed conflict policies underlying *Our Code* have been the responsibility of the Secretary of the Bank for a number of years, and this continued to be the case throughout the development and launch of *Our Code*.

#### (ii) Compliance function

From the outset it was clear that effective implementation of *Our Code* would require changes to existing compliance monitoring. Consequently, a new compliance function ('Compliance') was created, the scope of which was determined by a steering group led by the Chief Operating Officer.<sup>(2)</sup> It was decided that Compliance would sit within the Legal Directorate — reporting to the General Counsel — with a secondary, unhindered, reporting line to the Chair of the Audit and Risk Committee (ARCo), which is a sub-committee of Court, the Bank's Board.

There was clear executive leadership and effective oversight over the decision to form the compliance function. But, in the implementation phase, ownership at the most senior levels was somewhat blurred — particularly during the early phases of development.

General Counsel's responsibility for compliance has been re-emphasised following Ms Hogg's resignation (Section 4.2).

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(1) The Bank has committed to adhering to the principles of the Senior Managers Regime, which applies to UK financial institutions. See [www.bankofengland.co.uk/about/Documents/smr.pdf](http://www.bankofengland.co.uk/about/Documents/smr.pdf).

(2) There was also input from Executive Directors' Committee (EDCo) and the Governors' Committee (GovCo). The group included intermittent representatives from: Secretary's Department; Markets and Banking; Programme Office; Human Resources; and Internal Audit.

We also note that there is an anomaly within the Bank's internal structure with respect to the Head of Compliance role. This is of a less senior management grade than that of Head of Division roles elsewhere in the organisation. We recommend that this be rectified.

### (iii) Risk management

There has been considerable investment and progress in recent years in the Bank's approach to managing risk, with the aim of ensuring that risk management becomes more firmly embedded in the Bank's operations. This included the formation of new second-line functions for managing financial and non-financial risk, as well as the decision to bring together responsibility for first-line and second-line risk management at Deputy Governor level.

In 2015, an Executive Risk Committee (ERC) was created with responsibility for the operation of the Bank's overarching risk governance framework. The Chief Operating Officer and Deputy Governor for Markets and Banking acted as co-chairs of the new ERC, with a reporting line to ARCo. From February 2017, following the appointment of Ms Hogg as Deputy Governor for Markets and Banking in addition to her responsibilities as Chief Operating Officer, the head of the PRA was given responsibility for chairing the ERC.

## 4.2 Changes to executive responsibilities from 14 March 2017

Following Ms Hogg's resignation on 14 March 2017, the Bank announced a number of further changes to its reporting lines and internal structures. Specifically:

- the Bank's General Counsel was given responsibility under the Bank's application of the Senior Managers Regime for *Our Code* (although not for the underlying conflict policies, which remained the responsibility of the Secretary of the Bank);
- reporting lines for Head of Compliance were reiterated, with a dual reporting line into the General Counsel and the Chair of ARCo; and
- Senior Managers Regime responsibility for oversight of the Bank's risk profile and managing non-financial risk was moved to the Deputy Governor for Prudential Regulation.

These changes have proven to be effective *interim* measures, and have gone some way towards clarifying and simplifying previous reporting lines. However, there remains no single point of executive responsibility for conflict of interest policies, processes and monitoring; this is currently split between the Secretary of the Bank and the General Counsel.

We believe that it would bolster effectiveness and accountability if the Bank designated a single senior executive as Conflicts Officer, with responsibility for conflict policies including at the policy committees. We recommend that the proposed responsibilities of the Conflicts Officer are enshrined in the Bank's application of the Senior Managers Regime; further details on these responsibilities are set out in Box 7. The Conflicts Officer should have a dual reporting line to the Governor and the Chair of Court in relation to this aspect of their work, thereby strengthening Court's oversight of this important area. And the Bank will need to consider the subsequent implications of this appointment for other roles and functions to ensure, for example, that there are no overlaps/underlaps.

A detailed consideration of the Bank's risk management framework is outside the scope of this Review. But we recommend that Court revisit the question of executive responsibility for risk, and the associated reporting lines, once both the new Deputy Governor for Markets and Banking and Chief Operating Officer are in post.

## 4.3 The role of Court

### (i) Court, *Our Code* and underlying conflict policies

Court is the Bank's unitary board. Among other things it is responsible for approving changes to codes of conduct for Bank staff and members of the policy committees.<sup>(1)</sup> ARCo assists Court in meeting its responsibilities for an effective system of risk management, internal control and financial reporting. ARCo also oversees the work of Compliance.

*Our Code* and the underlying conflict policies have been regularly considered by Court and ARCo, in line with the principles outlined in the Bank's governance framework. Since late 2014 this has included:

- the approval of *Our Code* by Court in May 2015 ahead of its introduction in June of that year;
- a review of the first annual attestation rates to *Our Code* and associated learnings, which were presented to Court in December 2015; and
- an update to ARCo, in November 2016, on the attestation results held in October of that year.

We recommend that Court continue to approve all material changes to codes of conduct (including conflict policies), and should receive periodic (eg at least annual) reports from the Conflicts Officer. All material, senior-level, breaches should be reported in a timely manner to ARCo in the first instance.

### (ii) Court and the statutory policy committees

Court also has conflicts of interest responsibilities for the statutory policy committees, including:

- the removal, with the consent of the Chancellor, an external policy committee member<sup>(2)</sup> if satisfied that, in all circumstances, their financial or other interests would substantially affect their ability to properly discharge their committee responsibilities;
- reviewing, at least annually, the statutory-based 'Conflicts Codes' for the policy committees (see also Annex 2). The Bank is obliged by statute to consult HM Treasury before 'issuing, revising or replacing' the Conflict Codes for the committees; and
- the requirement for Court to be 'promptly consulted', via the Secretary of the Bank, on any proposed decision of a policy committee to authorise an actual or potential conflict.<sup>(3)</sup>

Court approved (in December 2016) the Conflicts Codes for the policy committees required by the 2016 amendments to the Bank of England Act. And Court has typically been appropriately consulted on changes to interests held by external committee members. There should be greater clarity, however, on when Court is consulted on conflict matters relating to the policy committees. Specifically:

- Individual members should promptly notify the proposed Conflicts Officer of relevant changes to their interests including, where appropriate, prospective changes for approval. The relevant policy committee will be notified of the changes, to consider whether there is an actual or potential conflict of interest and if so whether steps can be taken to avoid or manage the conflict.
- Where the change to a member's interest is material, the Conflicts Officer will ask the Chair of Court whether to consult Court. If Court is consulted and gives its view before the next relevant policy committee meeting, the policy committee will have regard to Court's view.

(1) The full 'Matters reserved for Court': [www.bankofengland.co.uk/about/Documents/pdfs/courtatters.pdf](http://www.bankofengland.co.uk/about/Documents/pdfs/courtatters.pdf).

(2) Other than *ex-officio* members, such as the Chief Executive of the Financial Conduct Authority, and the representative of the Treasury. Court's power to remove members of the committees also applies to members appointed by the Governor.

(3) As set out in the Bank of England and Financial Services Act 2016, it is the responsibility of each committee to decide whether individual potential conflicts exist and, if so, what mitigating actions should be taken.

## Box 7

### Key responsibilities for a designated Conflicts Officer

We recommend that the Bank designates a senior executive as responsible for all aspects of conflict of interest identification and management — and enshrines this in its application of the Senior Managers Regime.

We would expect the Conflicts Officer both to champion the culture needed for effective conflict management, and to lead the necessary process changes. The principal responsibilities of the Conflicts Officer would include:

- Promoting the importance of conflict identification and management throughout the organisation, including at senior levels.
- Owning the Bank's conflict policies and the relevant parts of *Our Code*.
- Ensuring conflict policies and their application are kept under regular review (including the Bank's policies on financial relationships/transactions). This will ensure that Bank keeps pace with external best practice.
- Providing support to senior officials on all aspects of conflict issues, including on appointment and change of role, at the time of annual declarations/attestations, and on an ongoing basis. This support will include both formal/structured meetings and informal advice.
- Achieving and maintaining an appropriate balance between full disclosure of that which is required and the avoidance of systematic 'over-disclosure'.
- Reporting on potential compliance with conflict policies, drawing on outputs from the compliance function.
- Reporting on the identification and management of conflicts (actual and perceived) at the statutory policy committees.
- Liaising on potential conflicts with relevant external stakeholders such as HM Treasury.

The Conflicts Officer should have a dual reporting line to the Governor and the Chair of Court in this aspect of their work (including appropriate access to the Senior Independent Director as necessary).

- If it is not practicable for Court to be consulted before the next relevant policy committee meeting, any decision by the policy committee about a change to a member's interests should be reported to Court at the next available opportunity.
- Court should be informed of subsequent recusals through routine updates from the Conflicts Officer.

Court should review the content and implementation of the Conflicts Codes at least annually.

# Annex 1 Terms of reference for the Review

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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,<sup>(1)</sup> including the lessons arising from Ms Hogg's case;
- what the Bank should do to ensure full and timely compliance with those policies, especially among 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.<sup>(2)</sup>

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.

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(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 management processes': Senior Management 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 Management Responsibility for the Code of Conduct moved to the General Counsel reporting to the Chair of ARCo in this regard.

## Annex 2 Requirements for Bank policy committees and Court

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The Bank has three statutory policy committees; the Monetary Policy Committee (MPC), the Financial Policy Committee (FPC), and the Prudential Regulation Committee (PRC). The Bank of England Act 1998 ('the Act')<sup>(1)</sup> includes provisions concerning conflicts of interest for all three in regards to appointment, committee procedure, and removal of members. These include that potential conflicts of interest must be considered during the appointment process for external committee members. The statutory responsibility for this sits with the Chancellor.

The Act also requires the Bank to issue and maintain codes of practice relating to conflicts of interest for all three statutory policy committees. Accordingly, the Bank has issued conflicts of interest codes of practice ('Conflicts Codes') for the MPC, FPC and PRC.<sup>(2)</sup>

The Conflicts Codes provide guidance on identifying potential conflicts of interest, as well as the procedure for declaring interests and managing conflicts. On identification of potential conflicts, they set out high-level guidance on the circumstances in which conflicts might commonly arise. These include directorships, outside employment, financial relationships, political activities and charity roles.

The Conflicts Codes require committee members to complete and submit a declaration of interests form, via the Secretary, to the committee before attending a meeting for the first time. This information must be reviewed annually. Under the Act, the committee member has responsibility to consider if an interest is relevant to matters on the agenda. Responsibility for managing any conflicts is, under the Act, reserved to the committee. The Conflicts Codes provide further detail on this process.

External committee members<sup>(3)</sup> may, with the consent of the Chancellor, be removed if the Court of Directors ('Court') is satisfied that their financial or other interests would substantially affect their ability properly to perform their role.

The Bank's general code of conduct ('*Our Code*') is cross-referenced within the three Conflicts Codes. *Our Code* provides the basic underlying principles and covers a wider breadth of issues than the Conflicts Codes for the statutory policy committees.

The statutory position for members of Court is separately laid out in the Act and contains provision for disclosing interests, and withdrawing from voting and discussion. The Act does not require the Bank to maintain a code of practice for managing Court conflicts of interest; nevertheless, in 2011, the Bank developed a Court Code on Business Ethics and Conflicts (the Court Code). The current Court Code provides for declarations on impartiality, confidentiality, and financial dealings.<sup>(4)</sup> The Court Code notes that appointment to Court presupposes that an individual has no financial or other interests that could substantially restrict his/her ability to discharge their responsibilities as a member of Court. These explicitly include:

- financial interests significant enough to conflict with the member's duty to the Bank; and

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(1) As amended by the Bank of England and Financial Services Act 2016.

(2) See: MPC — [www.bankofengland.co.uk/monetarypolicy/Documents/mpccconflictsinterestcodepractice.pdf](http://www.bankofengland.co.uk/monetarypolicy/Documents/mpccconflictsinterestcodepractice.pdf); FPC — [www.bankofengland.co.uk/financialstability/Documents/fpccconflictsinterestcodepractice.pdf](http://www.bankofengland.co.uk/financialstability/Documents/fpccconflictsinterestcodepractice.pdf); and PRC — [www.bankofengland.co.uk/prc/Documents/about/prccconflicts.pdf](http://www.bankofengland.co.uk/prc/Documents/about/prccconflicts.pdf).

(3) Other than *ex-officio* members, such as the Chief Executive of the Financial Conduct Authority, and the representative of the Treasury. Court's power to remove members of the committees also applies to members appointed by the Governor.

(4) Court members are asked to sign a declaration which includes an undertaking to 'not [to] seek to profit myself, my family or any other person financially or otherwise by making use, either directly or indirectly, of information acquired by me in the course of my duties'. See Matters Reserved to Court: [www.bankofengland.co.uk/about/Documents/pdfs/courtatters.pdf](http://www.bankofengland.co.uk/about/Documents/pdfs/courtatters.pdf).

- conflicts of duty arising from employment or other relationships that could prevent the individual concerned from being wholly independent, disinterested and impartial.<sup>(1)</sup>

The Court Code also specifies that members of Court are subject to the Bank's rules on personal financial transactions including making an annual disclosure of all assets. Additionally, Court members should:

- not accept or retain any directorship, trusteeship, advisory post or other interest, whether or not remunerated, that is in conflict with membership of Court;
- not normally be associated with a PRA or other Bank-regulated firm as director, employee or adviser;
- not normally be involved in the management of investments in capital or money markets or their derivatives, or in the provision of market infrastructure through regulated firms; and
- have no involvement with the management of funds, any part of whose business is investing in PRA-regulated institutions or trading in such investments.

The Court Code requires Non-Executive Directors to provide to the Secretary of the Bank details of all their relevant directorships and appointments. They must also consult the Chair of Court and notify the Secretary at least fourteen days before committing to become a member of the Board of any company or to undertake any duty or assume any post or engagement which may affect their position as a Member of Court.

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<sup>(1)</sup> The Court Code additionally specifies that the existence of conflicts arising from external appointments may preclude members of Court from observing meetings of the MPC, FPC or PRC, or receiving papers prepared for such meetings.

# Annex 3 Conflict of interest policies at the Bank of England

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Section 2 sets out the key aspects of the Bank's approach to conflicts of interest and, in particular, the personal relationships policy. This annex focuses on the policies and processes relating to financial relationships and personal financial transactions.<sup>(1)</sup>

## Financial relationships

The Bank's financial relationships policy aims to guard against a risk that individuals' judgement or decisions may be perceived to be influenced by their own financial relationships. All Bank staff, officials and statutory appointees must disclose whether they hold securities or related investments in Bank-regulated firms; whether they hold a balance or deposit in excess of the Financial Services Compensation Scheme limit; whether they hold a with-profits product with a PRA-regulated insurer; and any other financial relationship (such as a deferred remuneration scheme) that could reasonably be considered to be a potential conflict. These must be reported both for the individual themselves and for connected persons, such as a spouse, civil partner, child or step-child, if the individual directs or advises on such financial relationships.

For senior Bank officials (Executive Directors and above), external members of statutory policy committees and the Non-Executive Directors of Court, the Secretary of the Bank will also ask for an initial statement of assets and liabilities upon appointment (with a requirement for the member to update annually thereafter). These are not recorded in HRConnect but the paper forms are held on the Secretary of the Bank's file. The Secretary of the Bank will then meet with the individual, if appropriate, to discuss these disclosures.<sup>(2)</sup> He/she, with advice from the General Counsel, will assess these for sensitivity and, if they potentially invoke the statutory Conflicts Code, the issue is referred to the relevant committee for discussion.

## Personal financial transactions

Given the Bank's wide remit, many individuals have access to confidential and price-sensitive information which might be perceived to have influenced their decisions to invest, save or borrow. Individuals are under a general obligation not to seek profit or avoid a loss by making use of information acquired in the course of their Bank duties. They are also asked to exercise caution in the management of their finances and not to undertake transactions that by their nature or purpose might embarrass the Bank or harm its reputation.

All Bank staff, officials and statutory appointees are required to obtain prior approval for certain types of financial transactions — including arranging a mortgage and dealings in securities and related investments — and may not undertake transactions whose main purpose is speculative. The policy prohibits individuals from acquiring marketable debt or equity interest (eg shares) in any entity regulated by the Bank, including PRA-regulated firms or their financial holding companies.<sup>(3)</sup> These rules extend to when individuals are acting for connected persons (as defined in the policy)<sup>(4)</sup> or where the individual is acting as executor or trustee. Transactions undertaken by connected persons on their own initiative do not need to be reported for pre-approval unless the individual directs or advises on their investment decisions.<sup>(5)</sup>

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(1) Full details of these and other relevant conflict policies — including entertainment and gifts; directorships; political activity; community and charity roles; restricted duties; and speaking up about malpractice or misconduct (whistleblowing) — can be found on the Bank's website. See: [www.bankofengland.co.uk/about/Pages/humanresources/default.aspx](http://www.bankofengland.co.uk/about/Pages/humanresources/default.aspx).

(2) The Secretary of the Bank will not hold a meeting with all individuals as a matter of routine but is available should they have any questions.

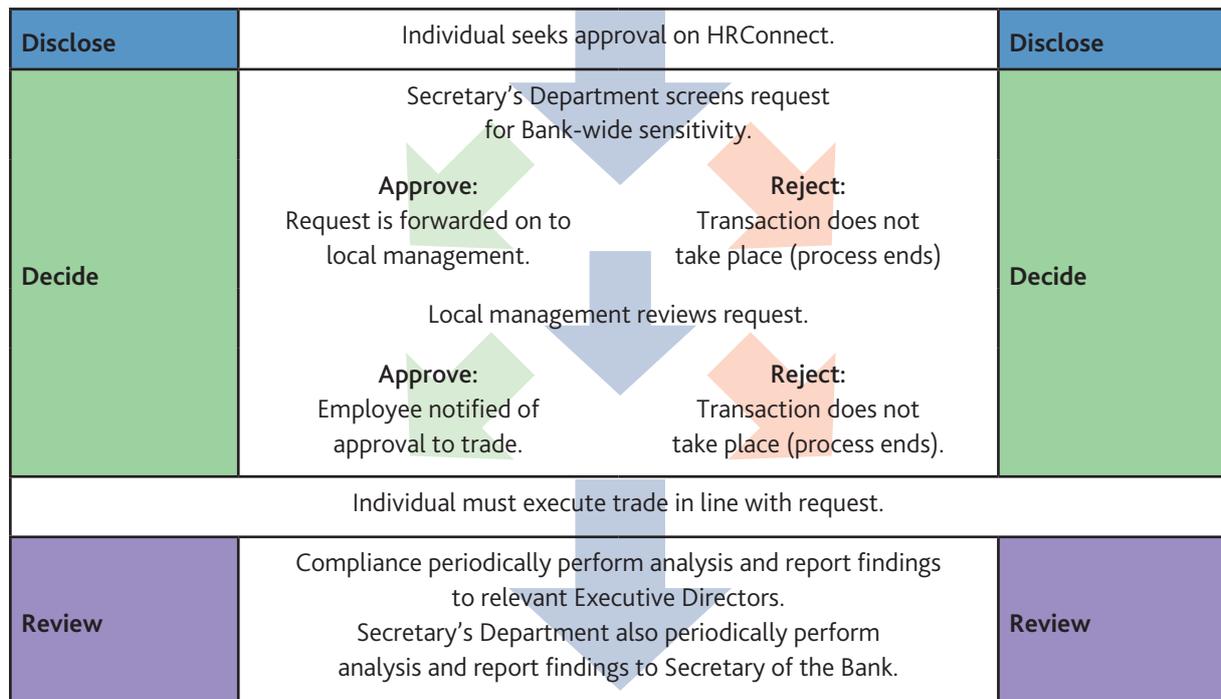
(3) Where staff have holdings in Bank-regulated institutions, they are not permitted to acquire more or actively manage such holdings; disposals can be made with permission.

(4) Defined as third parties for whom the individual takes or advises on financial decisions. These may include a spouse; civil partner; children or step children under 18 years; and any other person with whom the individual lives in an enduring family relationship. Connected persons include a company of which the individual is a director or a majority shareholder.

(5) The reporting and pre-approval procedures do not apply in respect of investment assets where they are managed by an independent portfolio manager with full discretion over investment decisions on terms approved by the Secretary of the Bank.

The process for approving personal transactions for Bank staff below Executive Director level is outlined in **Figure A3.1**. It involves dual sign-off for requests, led by Secretary’s Department. The first stage is to screen against the policy — eg to determine if it is a permitted transaction, if sufficient information has been provided, and whether there are any sensitivities around the proposed timing of the transaction. If approved, local management with more knowledge of the individual’s role and related sensitivities will review the request. Approved transactions must be executed within the parameters of the original request. Currently, individuals are not required to provide evidence of transactions on a routine basis but the Bank may request it.

**Figure A3.1** Personal financial transactions process



For Executive Directors and above, external members of statutory committees and Non-Executive Directors of Court, the Secretary of the Bank deals with approval requests directly, consulting the Chair of Court if needed.

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