

Lord Bridges of Headley MBE
Economic Affairs Committee
House of Lords
London
SW1A 0PW

7 June 2023

Dear George,

Many thanks for your letter of 25 May in which you ask about reviews conducted by the Bank since the 2007-08 financial crisis, and their impact on the Bank's operations and governance. I welcome the opportunity to highlight and discuss how we are meeting the evolving challenges that face the UK economy and financial services sector in the 21st century.

The scope of this request is wide ranging given the Bank has either commissioned or conducted a wide range of reviews since the financial crisis for a variety of reasons. In this letter I have taken the opportunity to highlight four areas:

1. the evaluations conducted by the Bank's Independent Evaluation Office (IEO);
2. the three external reviews commissioned by Court in direct response to the 2007-08 financial crisis;
3. the other notable reviews commissioned by Court in more recent years; and
4. the statutory reviews that can be conducted under the Financial Services Act 2012.

I have also included, as an Annex to the letter, a table summary of the reviews in relation to these four areas.

I would start by making the general point that the Bank has both a strong learning culture and well-established risk tolerance framework. Reviews are conducted for both reasons. Regarding the former, reviews can be undertaken to ensure that the Bank keeps pace with industry and technological advances as well as evolving standards for accountability. It is also important that the Bank looks back at the policy actions that it has taken and assesses their effectiveness, given their broad impact on the citizens of the UK.

Regarding the latter, reviews are undertaken to ensure that our business practices are robust, within risk tolerance and ensure good value for money. Some reviews are conducted in response to specific events. There are also periodic reviews undertaken by business areas; in addition the Bank's Risk and Internal and External Audit functions (including the National Audit Office) can and do undertake their own independent reviews.

As is usual practice across industry and similar organisations, some reviews are conducted on an internal-facing basis; but the most important and significant reviews are published, together with the Bank's response to any recommendations raised.

1. IEO Evaluations

The IEO was set up as a core initiative of the 'Open and Accountable' pillar of the Bank's 2014 Strategic Plan. The Court of Directors has a statutory obligation to keep the Bank's performance under review, and the IEO's overarching objective is to support Court in its governance responsibilities and in enabling the Bank to operate more effectively across the full range of its policy areas. It provides Court with objective assessments of the performance of the Bank's policy functions, making recommendations on any improvements. In so doing, the IEO aims to build public trust in the Bank, and to strengthen the institution's culture of learning.

The IEO reports directly to the Chair of Court, to whom it is accountable. The Chair, typically in consultation with Court, is responsible for setting the remit, the direction and work programme for the IEO. The IEO, led by a director, consists of a small permanent team who are recruited for their knowledge of, and expertise in, the Bank's core policy functions. The core team is supplemented as needed – both with seconded Bank staff and, where appropriate, with external expertise.

There is a presumption that IEO evaluations will be published alongside a management response from the Bank Executive. These are all available on the [Bank's website](#). The IEO also operates a follow up process to ensure that its recommendations are implemented and updates Court on progress on a regular basis. Once all actions have been completed, the IEO reviews evidence on their implementation, including assessing the impact of changes where possible, and provides a report to Court.

The IEO's evaluations have covered the full range of the Bank's policy responsibilities, with a particular focus on new or changing responsibilities. The IEO can also be particularly useful in helping the Bank make progress on topics that cut across several areas of the Bank.

The Annex contains a full list of evaluations. To highlight four areas where IEO evaluations have helped the Bank make progress:

- One of the IEO's first evaluations considered the Prudential Regulation Authority's (PRA) new Secondary Competition Objective (SCO), and found there was scope to embed this more firmly into the organisation. The changes made in response helped to put the SCO on a stable footing, so that potential competition issues were identified at the right time in the policy making process.
 - Following the IEO's 2017 evaluation of Financial Market Infrastructure – which the Bank gained new supervisory responsibilities for post-financial crisis – the Bank introduced external members to the FMI Board and supervisory fees to fund work in this area.
 - The IEO's 2018 evaluation of Resolution found that much remained to be done if the major UK banks were to be fully resolvable by 2022. By 2022 when the IEO carried out its closing report, the Bank had published its first Resolvability Assessment for the Major UK Banks. It had also made improvements to internal governance and cross-Bank and cross-authority working and developed playbooks for a range of resolution scenarios.
 - More recently, the IEO's evaluation of Quantitative Easing has led to enhanced communication on the Bank's understanding of the tool to both expert and non-expert audiences.
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A further evaluation is presently underway on how the Bank uses data to support its policy objectives, including questions around operational aspects and governance, which the IEO expects to publish later this year.

2. Reviews conducted in response to the 2007-2008 financial crisis

In May 2012, Court commissioned external reviews conducted by internationally respected experts focused on three areas of the Bank's performance and capabilities that had been tested in the financial crisis. These were:

- the arrangements for providing emergency liquidity support to an institution – the Plenderleith Review;
- the framework for providing liquidity to the banking system as a whole – the Winters Review; and
- the MPC's forecasting capability – the Stockton Review.

The Bank's responses to the recommendations were published in March 2013 and implementation of the reviews was monitored by the Oversight Committee of Court.¹

Changes to the Bank's Sterling Monetary Framework (SMF) announced in October 2013 reflected the recommendations in the Winters Review, together with the Bank's own assessment of the changing regulatory and financial market landscape. These increased the availability and flexibility of liquidity insurance, by providing liquidity at longer maturities, against a wider range of collateral, at a lower cost and with greater predictability of access. In 2018 the IEO reviewed the reforms to the SMF and found positive evidence of progress across numerous aspects of sterling liquidity provision some but noted opportunities for the Bank to refine and update its approach. Its follow up in 2021 noted that these had been successfully embedded and noted that the liquidity facilities had performed very well during the pandemic.

The Plenderleith Review on providing emergency liquidity support to an institution highlighted many of the operational lessons of the crisis. The Bank embedded those lessons in the Bank's procedures. In 2014, the Oversight Committee of Court stated that it was satisfied that the Bank was well-prepared and that the major risks to such operations had been identified.

The Stockton Review recommended providing greater transparency about the MPC's forecasts; enhancing the role of monetary policy analysis in the forecast process; and exposing the MPC's forecasts to increased challenge. The Bank's response highlighted three distinct ways in which the Bank would provide greater transparency about the MPC's forecasts: providing more detailed information about the key judgements and risks underlying the Committee's forecasts; producing an enhanced forecast evaluation exercise; and changing the way in which information about the MPC's forecast distributions is communicated. Alongside changes to internal processes, more detailed information on the MPC's forecasts is now published in the Monetary Policy Report.

¹ Since 2016 Court has operated as a unitary board. Prior to this Court had operated as two statutory Boards – Court and the "Oversight Committee". In a simplification of the structure, the Oversight Committee was abolished by the Bank of England and Financial Services Act 2016.

3. Other notable reviews commissioned by Court

Court reviews are deployed to address issues of central strategic importance; some examples of reviews either commissioned, or undertaken, by Court in recent years include:

- Ethnic Diversity and Inclusion (2021);
- the misuse of the Bank's press conference audio feed (2019); and
- the Bank's approach to conflicts of interest (2017).

The Court Review of Ethnic Diversity and Inclusion was initiated after Court listened to colleagues' views and witnessed slower-than-expected progress against the Bank's diversity and inclusion targets. Court reviews of this nature are a powerful tool in catalysing real, lasting strategic and cultural change at the Bank. The latter two examples were conducted after particular events had taken place. Common across all three reviews is that they are areas in which the Bank was at risk of being seen to be falling short of its objectives and the high standards it set for itself, and the most senior leaders at the Bank wished to ensure that effective actions were identified and implemented in response.

In addition to the above, Court also undertakes reviews as a part of its business-as-usual agenda. Court is required under the Bank of England Act 1998 to keep under review the Bank's performance in relation to its objectives; it must also keep under review the procedures of the policy committees (whose meetings the members of Court are entitled to attend as observers). Court undertakes regular effectiveness reviews of those committees (and of Court itself). Such reviews are designed to ensure that the Committees have the correct policies and procedures in place to ensure effective decision making. The Bank's Annual Report and Account's contains a summary of Court's key deliberations over the prior year including notable observations from Court reviews of this nature.

Although not a formal Court review, I would highlight the enhancements made to MPC transparency following Kevin Warsh's (previously a Governor at the Federal Reserve) review of the MPC's process. This review, which was commissioned by Mark Carney in 2014, identified four distinct objectives of monetary policy transparency – sound policy, effective communication, public accountability and accurate historical record-keeping. In response to the review, there were changes to bolster transparency. The MPC moved to simultaneous publication of policy decision, minutes and Inflation Report (now the Monetary Policy Report). It also committed to publication of transcripts of policy meetings and policy briefing material after an 8-year delay to strike the right balance between preserving what Warsh describes as a “safe space” for Committee deliberation and bolstering the transparency and accountability of its policy decisions.

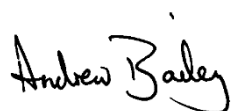
4. Statutory reviews under the Financial Services Act 2012

Part 5 of the Financial Services Act 2012 introduced a statutory framework for conducting inquiries and investigations into the financial regulators. Both the Financial Conduct Authority (FCA) and the PRA are under a statutory duty to investigate and report on possible regulatory failures, and HM Treasury has the ability to commission independent inquiries and require the regulators to undertake investigations.

A notable example of this in practice was the independent review into the prudential supervision of the Co-operative Bank between 2008 and 2013. This review, which was conducted by Mark Zelmer, included eight recommendations addressed to both the PRA and the Bank designed to improve the approach to prudential supervision. These included the need to evolve the approach to stress test exercises; further considering how the Bank might deploy resolution tools in systemic situations; and the importance of the PRC and executive management continuing to play a leading role in ensuring supervisory strategies take account of regulatory developments. The PRA and Bank published their response to each of these recommendations and explained how the actions would be taken forward. For example, the Bank's commitment to continually evolve its stress tests (including in relation to cyber and climate risks), introduction of the Resolution Assessment Framework to improve the resolvability of firms coupled with requiring mid-tier and major UK banks to hold additional loss absorbing capital to support "bail-in" resolution strategies, and the PRA's focus on forward-looking approach to supervision.

I trust that this letter is helpful in providing you and the Committee with an account of the reviews conducted by the Bank since 2007-08 and how the Bank has responded to them. I look forward to my appearance on 13 June where I would be happy to provide further views on these and other issues.

Yours sincerely

A handwritten signature in black ink, reading "Andrew Bailey". The signature is written in a cursive, slightly stylized font. The first name "Andrew" is written in a larger, more prominent script, and "Bailey" follows in a similar but slightly smaller script. The signature is positioned below the "Yours sincerely" text.

Enclosed Annex: Table summary of significant reviews conducted by the Bank since 2007-08

Annex: Table summary of significant reviews conducted by the Bank since 2007-08

Topic	Why commissioned	Findings focussed on	Links to review
1. IEO Evaluations			
IEO evaluation of the Bank's use of data to support its policy objectives (ongoing)	In October 2022, Court approved an IEO evaluation of the Bank's use of data noting it was important not only to look at how the Bank analyses data but also how it gathers and stores them.	The evaluation will report to Court in the second half of the year.	-
IEO evaluation of the Bank of England's approach to quantitative easing (2021)	In 2009, the MPC began a programme of quantitative easing (QE), through the Bank's Asset Purchase Facility, intended as a temporary measure to support the economy in the aftermath of the crisis. But a decade on from its introduction in the UK, QE has become bigger, broader and more persistent than expected. The Bank's Court commissioned this evaluation of the Bank's asset purchase programme.	Recommendations fell under three themes. The first considered how the Bank could continue to advance and apply its technical understanding of QE, given that important knowledge gaps remain. The second looked to ensure that the governance and implementation of QE remain fit for the future, recognising the complexity and risk considerations of asset purchases. And the third focussed on building public understanding and trust in QE, a tool which remains poorly understood and often contentious.	Link to review

Topic	Why commissioned	Findings focussed on	Links to review
IEO evaluation of the Bank's approach to research (2019)	Outstanding research and analysis underpins everything the Bank does. While the Bank has conducted research for many years, it had, to a degree, been crowded out during the financial crisis by the shorter term analysis needed at the time. Recognising this, in 2014 the Bank made investment in research a key part of its One Bank Strategic Plan. With that plan coming to an end, Court commissioned the IEO to assess whether the aim to improve research in the 2014 Strategic Plan had been met.	The IEO's recommendations fell under three themes. The first considered the importance of clarifying the role of research in delivering the Bank's mission. The second theme looked to provide more clarity and structure around career paths for researchers. The final theme reflected on the challenges of ensuring there are structures and resources in place that support the Bank's research objectives, in particular ensuring that researchers can make the best use of the Bank's unique data.	Link to review
IEO evaluation of the Bank's approach to stress testing (2019)	Since the financial crisis, stress testing has rapidly evolved and grown in importance for policymakers. Concurrent – or simultaneous – stress testing of the UK banking system was first conducted in 2014 and since then it has become the primary way for the Bank to assess the health of the banking system collectively and the main institutions within it individually. This bringing together of macro and microprudential objectives was novel and ambitious when set out by the Bank in its 2015 published approach. Court commissioned the IEO to assess whether the aims of the 2015 approach have been achieved.	The IEO's recommendations fell under three themes. The first paved the way for more value to be extracted from this resource-intensive exercise, through suggestions to advance macro and microprudential objectives. The second theme provided insights to guide the Bank in enhancing delivery further, building efficiency and effectiveness. The final theme reflected on the challenges associated with communicating stress test outcomes. It made recommendations for ensuring that internal, public, and bilateral firm communications all support stress testing objectives to the fullest extent possible.	Link to review

Topic	Why commissioned	Findings focussed on	Links to review
IEO evaluation of the Bank's approach to resolution (2018)	The financial crisis highlighted the importance of having an effective framework that enables banks to fail in an orderly manner. The suite of powers and responsibilities the Bank has gained since 2009 is critical to assuring that failing institutions can be resolved without direct costs to taxpayers. For the Bank to be able to resolve firms effectively requires effort not only through its work as the UK's resolution authority, but also as a supervisor (through the Bank's Prudential Regulation Authority) and a central bank lender. The evolution of the UK resolution framework and the implications across the institution led the Court to commission its IEO to review the effectiveness of the Bank's resolution arrangements.	The recommendations in this report covered three themes. The first looked to support the Bank's work in delivering on its target to make firms fully resolvable by 2022. The second centred around the supporting infrastructure to reinforce cross-Bank working as it shifts further towards the implementation of the framework. The third levered off existing preparatory work for executing a resolution, bearing in mind it has been some time since a bank has been resolved in the United Kingdom.	Link to review
IEO evaluation of the Bank's approach to providing sterling liquidity (2018)	The Bank's sterling liquidity facilities are at the heart of its mission — for example, the historical record suggests that the Bank has been providing sterling liquidity to the market for financial stability purposes since at least 1847, and probably longer. In recent years, and in part following a review commissioned by the Court of Directors (the Bank's Board) in 2012, these liquidity facilities have been subject to a series of reforms. More generally, the wider Bank has sought ways to work more effectively together, in line with its 'One Bank' strategy. Given the importance of the facilities to the Bank's work, Court commissioned its Independent Evaluation Office to assess whether the	The evaluation uncovered opportunities where the Bank could refine and update its approach. The IEO's recommendations fell into three main themes: future-proofing the facilities for stress situations; operating the SMF as 'One Bank'; and communicating the Bank's risk management approach more effectively.	Link to review

Topic	Why commissioned	Findings focussed on	Links to review
	various reforms in recent years were on track to achieve their aims.		
IEO evaluation of the Bank's approach to insurance supervision (2017)	The Prudential Regulation Authority (PRA), part of the Bank of England, was given new duties in 2013 in respect of insurers. Specifically, the PRA was given responsibility for the prudential supervision of all authorised insurers in the United Kingdom — the first time in the Bank's 320-year history that it had been responsible for insurance oversight. The PRA's statutory insurance responsibilities include the need to contribute to the securing of an appropriate degree of protection for policyholders. This was a new requirement for the Bank, and one that, when combined with the PRA's broader responsibilities, has few direct parallels among regulators elsewhere. In April 2016, Court therefore commissioned its Independent Evaluation Office (IEO) to assess the PRA's approach to its policyholder protection duties.	The IEO's recommendations fell into four categories — articulating more fully the PRA's approach to its Insurance Objective, communicating this articulation clearly, implementing the preferred approach effectively and enhancing the PRA's framework for co-ordination with the FCA.	Link to review
IEO evaluation of the Bank's approach to financial market	Financial market infrastructures (FMIs) such as payment systems and clearing houses are crucial to the effective functioning of both the financial system and the UK economy. The Bank gained significant new supervisory responsibilities in respect of FMIs following the 2007–08	Looking ahead to the likely challenges in the FMI landscape, the IEO's work identified scope to continue to build on gains. The IEO's recommendations fell into three main categories: articulating more fully the objectives and responsibilities of FMI supervision at the Bank; ensuring that the Bank has the right	

Topic	Why commissioned	Findings focussed on	Links to review
infrastructure supervision (2017)	financial crisis, and the Court of Directors (the Bank's Board) has agreed the importance of ensuring that these duties are appropriately discharged. In early 2016, Court commissioned its Independent Evaluation Office (IEO) to examine the Bank's approach to FMI supervision, with a particular remit to evaluate whether the investments made at the time of the 2014 Strategic Plan had been effective. Court additionally emphasised the need for the Bank to keep pace with the fast-changing nature of the FMI industry, and an important aspect of the IEO's evaluation was to examine whether the Bank's supervisory approach was appropriately forward looking and flexible.	resourcing model for future challenges, including that FMI supervisors are supported by the wider Bank as effectively as possible; and continuing to strengthen governance, including by revisiting the question of third-party challenge.	
IEO evaluation of the PRA's secondary competition objective (2016)	In March 2014, the PRA gained a new statutory requirement in relation to competition — the Secondary Competition Objective (SCO). The SCO requires that when making policy in pursuit of its primary objectives of safety and soundness and insurance policyholder protection, the PRA does so in a way that facilitates effective competition, as far as reasonably possible. This new statutory duty necessitated a material change of	The IEO's work suggested that articulating the PRA's framework and intended approach more fully is one way in which any undue misgivings about the compatibility of the SCO with the PRA's primary objectives could be usefully addressed. More generally, the IEO found scope to embed the SCO more firmly into PRA processes, thereby helping to maintain a consistent and appropriately proactive approach to the objective throughout the organisation. The IEO additionally identified opportunities to ensure that competition is sufficiently influential by strengthening governance and demonstrating consistent compliance with the	Link to review

Topic	Why commissioned	Findings focussed on	Links to review
	gear. In February 2015, Court commissioned the IEO to evaluate whether the requisite change was taking place.	SCO, as well as to refresh the PRA's strategy on external liaison and communication on competition issues.	
IEO evaluation of the Bank's approach to forecasting (2015)	Forecasting is an essential input to the work of the MPC, and, increasingly since the advent of the 'One Bank' strategy, into the work of the Financial Policy Committee and the Prudential Regulation Committee. The publication of forecasts, which occurs quarterly in each Inflation Report, is also an important output of the MPC, and forms a key part of the Committee's communication strategy.	The IEO's work suggested two aspects of performance that merit further investigation. First, the IEO observed a tendency for some two year ahead projections to be less accurate than one year ahead projections, particularly so in the 2010–14 period. The second area of note related to the Bank's unemployment rate forecasting record: of the eleven variables evaluated, the unemployment rate forecasts performed the least well against our statistical tests, including tests of unbiasedness and efficiency. More broadly, the IEO's empirical work, together with the numerous interactions the IEO had with producers and (internal) users of the Bank's macroeconomic forecasts as part of this study, suggested that the following recommendations could assist the Bank in improving its forecasting capability: learn more from other forecasters and models; learn more systematically from the past; challenge conventions more; and provide more support for non-MPC internal users of the Bank's forecasts.	Link to review
2. Reviews conducted in response to the 2007-2008 financial crisis			

Topic	Why commissioned	Findings focussed on	Links to review
Winters Review on the Bank's framework for providing liquidity to the banking system as a whole (2013)	One of three Court-commissioned reviews following significant changes to the way the Bank operates after the 2007-2008 financial crisis	A number of recommendations around monetary policy implementation, liquidity insurance provision and governance.	Link to review
Stockton Review on the MPC's forecasting ability (2012)	One of three Court-commissioned reviews following significant changes to the way the Bank operates after the 2007-2008 financial crisis	A set of options relating to (i) forecast capabilities, process and organisation (ii) improving communication and transparency of the forecast (iii) better integration of the forecast and monetary policy analysis.	Link to review
Plenderleith Review on the provision of emergency liquidity assistance in 2008/9 by the Bank to HBOS and RBS (2012)	One of three Court-commissioned reviews following significant changes to the way the Bank operates after the 2007-2008 financial crisis	The basis of decisions, governance arrangements, structure of operations, effects on the institutions and financial stability	Link to review
3. Other notable reviews commissioned by Court			
Ethnic Diversity and Inclusion (2020)	Assessed where exactly the Bank was falling short against the vision for ethnic diversity and inclusion. Commissioned by Court which is responsible for setting the Bank's strategy including a number of staff policies.	Employee life-cycle outcomes and frameworks and efforts to achieve racial/ethnic inclusion.	Link to review

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Encoded Media (2019)	In 2019, concerns were raised with the Bank that an audio feed of certain of its Press Conferences was being made available to those without authorised access. Auditor and IEO commissioned by Court to conduct a review.	Reviewing the way technology supports media interactions, identification of risk, vendor risk assessments, training and consistency of processes.	Link to review
Approach to Conflicts of Interest (2017)	Following the resignation of Charlotte Hogg, the Court Non-Executive Directors conducted a review of the Bank's approach to conflicts of interest (engaging the law firm Herbert Smith to provide external advice)	Creation of a "conflicts officer", clarifying reporting for personal relationships, strengthening awareness and checks, improved consistency	Link to review
Grabiner Review on role of Bank officials in relation to conduct issues in the FX market (2014)	Commissioned by then "Oversight Committee" (Court NEDs) following accusations that Bank officials were aware of impropriety in FX markets	Documentation, education, clarity over the Bank's Market Intelligence role	Link to review
Warsh Review on Transparency and Accountability at the Bank of England (2014)	Initiated by the Governor to look at making MPC procedures more transparent and streamlined, supported by the IEO and reported to Court.	Improvements to MPC transparency, transparency of Bank records and documents, governance of the Bank and its policy committees	Link to review
4. Statutory reviews under the Financial Services Act 2012			

Topic	Why commissioned	Findings focussed on	Links to review
Independent Review of the Cooperative Bank (2019)	HMT directed the PRA to carry out an independent review into the prudential supervision of the Co-operative Bank between 2008 and 2013.	The report made detailed recommendations for the PRA and the Bank relating to supervisory policy and practice, including stress testing, missed opportunities to confront banks' weak capital position and the need for greater and earlier focus on the quality of the loan book.	Link to review