



BANK OF ENGLAND

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THE MPC CODE

Thank you for your letter of 24 August, in which you asked for a review of the MPC Code against the background of Jan Vlieghe's appointment.

The Code, a copy of which is attached and is publicly available, states that:

Members of the MPC may not retain any directorship, trusteeship, advisory post or other interest, whether or not remunerated, which is, or could be seen to be, in conflict with membership of the Committee. The acceptability of particular appointments and interests will be assessed on a case-by-case basis.

Mr Vlieghe was a partner in Brevan Howard upon his appointment. He retired immediately from any active involvement with the firm and has retained no business interests outside the Bank.

The Code states that the members of the MPC are subject to the Bank's rules for personal financial transactions. For a member of the MPC these require full disclosure of all assets and significant liabilities, obtaining the Bank's consent to any subsequent transactions beyond a *de minimis* threshold, and an outright ban on the acquisition of interests in entities regulated by the Bank. The rules do not automatically require assets to be disposed of on joining, but transactions in them will require the Bank's prior consent. The rules also state that members with large or complex financial holdings are advised to place them under discretionary management. Court approved these rules as a realistic and proportionate approach to managing potential conflicts. The Bank's Secretary acts as reporting officer for the members of the MPC and the other policy committees.

Mr Vlieghe had in the past been granted, as part of his remuneration from Brevan Howard, the right to receive a fixed share of the equity profits of the overall asset management business. However, the share was not marketable or transferable and was only redeemable at the discretion of Brevan Howard. The Secretary was consulted on whether, if it could not be redeemed, it would be acceptable for Mr Vlieghe to retain the interest. He considered this in the light of the nature of the interest as it related to the MPC's responsibilities, and of the Bank's personal financial transactions rules as they apply to new joiners. In substance, the interest was equivalent to receiving a dividend from any company, public or private, or an investment fund. Mr Vlieghe was not joining the regulatory side of the Bank - and Brevan Howard is not in any event regulated by the Bank. In relation to MPC decisions the interest was judged not to be relevant - it would require Mr Vlieghe to have a very close knowledge of Brevan Howard's trading position to know

how the MPC's decisions would affect its trading performance, and as previously noted Mr Vlieghe had resigned from the partnership. The Secretary's conclusion was that it should not be required that Mr Vlieghe renounce his interest as a condition of joining the MPC. In the event, Brevan Howard and Mr Vlieghe mutually agreed that Brevan Howard would buy back Mr Vlieghe's share in the profits.

The Bank is of course aware that perceptions count, but this is a matter for judgment; and we need to balance any concern about public perceptions against the risk of making our approach so forbidding as to turn away good candidates from our policy committees. The Treasury Committee itself has frequently made this point – for example in the 2011 Report on the Bank's governance:

There is a risk that the code of conduct for members of the FPC may prevent or discourage the appointment of experienced industry practitioners whose membership would be of benefit. We have heard evidence that the interpretation of the FPC code of conduct has, to date, been flexible. We welcome this, but fear that there is still a risk that the rules are too tight and may prevent suitable candidates even being considered for appointment. The same concerns apply in the case of the MPC.

I would be happy to elaborate on the judgments involved in this case in future evidence sessions. But they are judgments - and I think the Codes in their present form are right to leave room for the Bank to make these judgments.

There is however a wider point of consistency, which is relevant to the forthcoming Bill on the Bank's governance.

At present the FPC and MPC external members are appointed by the Chancellor, and the PRA external members are appointed by Court. It is proposed that in future all these appointments will be made by the Chancellor. The current conditions relating to appointments are:

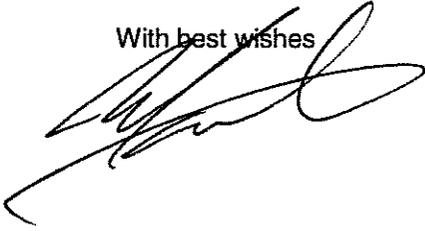
- a. for the MPC, the Chancellor has to be satisfied that the person has relevant knowledge and experience (BoE Act S13(4)). The restrictions on outside activities and interests are in the MPC Code, not the legislation.
- b. for the FPC, the Chancellor must be satisfied that the person has relevant knowledge and experience, and must also consider whether the person has any financial or other interests that could substantially affect his or her functions as a member (BoE Act S9B(3)). There are further provisions in the FPC Code relating to changes post-appointment.
- c. for the PRA Board, the position is governed by FSMA (Schedule 1ZB para 11), which requires Court to consider whether the person has any financial or other interests that could substantially affect his or her functions as a member, and also by the Companies Act, which requires the PRA Board to "approve" any conflicts on appointment. Court has adopted a policy on potential conflicts to guide its appointments, and a copy is attached.

Obviously the considerations will differ for external members joining the different Committees – an interest that may be acceptable for an MPC member may be inappropriate for a regulator. But with all three policy bodies being placed on the same footing inside the Bank, and the de-subsidiarisation of the PRA, a common requirement on the appointing authority, who will in all cases be the Chancellor, to consider potential conflicts would make sense.

There are also inconsistencies in the requirements on Board practice. While the FPC, like Court and (via its Articles) the PRA, is subject to a requirement that members declare in a meeting when he or she has any interest in a matter to be discussed, and withdraw from the discussion if the Committee so decide, that is lacking in the current statutory provisions for the MPC.

The Bill provides a good opportunity to remedy these inconsistencies. But as I noted earlier, it is important that we leave room for judgment case-by case – and do not inadvertently adopt approaches that make it more difficult to attract the best people to these very important roles.

With best wishes

A handwritten signature in black ink, appearing to be 'John', written in a cursive style.