I am responding to the questions raised in your letter of 16 July regarding the operation of the Code of Conduct for members of the Financial Policy Committee (FPC) and, in particular, the business interests of Mr Sharp.

This letter addresses your questions on the Bank's procedures for the declaration of interests such as this and the management of any potential conflict that may arise from those interests. It concludes with an answer to your question about guidance to FPC members regarding political activity.

Declaration of business interests

Mr Sharp has informed the Bank that Roundshield Partners is an embryo fund being established by, and that is currently part of, Dii Investments, a private investment company. Roundshield has to date made no investments and will not be ready to do so before October. It is intended that the fund will provide loans to European non-financial corporate entities and to asset-based real economy financing companies.

Mr Sharp's interest in Dii Investments was declared to the Chancellor ahead of his appointment to the FPC and publicly to the Treasury Committee at a session on 4 June 2013. That interest is listed on the Bank of England's website.

The Bank of England Act specifies that “Before appointing a person...the Chancellor of the Exchequer must...consider whether the person has any financial or other interests that could substantially affect the functions as a member that it would be proper for the person to discharge.” Mr Sharp's appointment to the FPC by the Chancellor, and the Treasury Committee's endorsement of that appointment, were consistent with the view that his interest in Dii Investments would not substantially affect his ability to serve as a member of the FPC.

The Bank maintains a non-statutory Code of Conduct for FPC members during the term of their membership of the FPC. That Code, available on the Bank of England's website, requires members to notify the Bank, in advance, if they are planning to take on any new interest that might be seen as in any
way in conflict with membership of the FPC, or if a potential conflict arises in respect of any existing interest.

Mr Sharp informed the Secretary of the Bank of the planned change in his business interest in Dii to include Roundshield, and of his proposed personal financial investment in the fund, in July 2013. The Secretary judged that it did not constitute a new business interest or a material change in his existing interest in Dii Investments. Neither I nor any other FPC member was informed and Roundshield was not listed as a separate interest on the Bank of England’s website. I have since instructed that the FPC should be informed of all changes to members’ business interests, even when they are judged not to be material.

In the event that Roundshield were to become a separate business entity, or to become fully established and therefore prepared to make investments, I expect it to be listed separately on the Bank of England’s website and for the materiality of the interest to be reviewed again by the Bank’s Secretary and, if necessary, General Counsel.

As a backstop mechanism, I have instituted an annual review process of FPC members’ business interests. The Secretary of the Bank and the Bank’s General Counsel will meet with each member once a year to review their disclosed interests to ensure that there has not been and is not likely to be change in the nature of those interests. Those annual reviews will be reported to me as Chairman of the FPC and to the Court of the Bank of England given its oversight of the procedures and performance of the FPC. These reviews will complement the existing requirement for members to make an annual declaration of their financial assets and liabilities in full to the Secretary of the Bank.

Management of potential conflicts

The existence of business interests does not preclude membership of the FPC. I note that in the Treasury Committee’s November 2011 Report “Accountability of the Bank of England”, it stated:

“[W]e fear there is still a risk that the rules are too tight and may prevent suitable candidates even being considered for appointment… We recommend that the Bank change its emphasis so that the appointment of industry practitioners becomes easier. This will put more onus on the committees, led by their chairmen, themselves to deal with any conflicts of interest as they arise.”

The Bank manages potential conflicts in two ways.

First, FPC members, like all Bank of England employees, are subject to secrecy rules, which prohibit them from seeking to profit, financially or otherwise, by making use of information acquired in the course of their duties. They must seek prior authorisation from the Secretary of the Bank for any sensitive financial transaction. Such authorisation would not be granted during a period when an FPC member had access to privileged information relevant to the transaction.

Second, the Bank of England Act requires that each FPC member must disclose to the FPC any relevant interest, direct or indirect, when the FPC considers related business. It is then for the FPC to judge the degree to which that interest gives rise to a potential conflict or even to the perception of such a conflict
and to manage its discussions accordingly. The FPC must decide whether the member is to be permitted to participate in the subsequent proceedings and if so, to what extent and subject to what conditions. The disclosure and the Committee’s chosen way of responding to it are documented in the published Record of the meeting. The Record of the FPC’s most recent meeting (June 2014) includes an example of that procedure.

The Bank’s Secretary and General Counsel have advised me that Mr Sharp’s interests have not warranted such a declaration to date. However, it is possible that the FPC will in future consider questions that mean it will be necessary for him to declare a financial or business interest.

Guidance on political activity

The Bank of England Act prohibits Ministers, Civil Servants and Members of Parliament from membership of the FPC. FPC members are also prohibited by their terms of service from standing for elected office or making political statements, as are all employees of the Bank.

The FPC Code of Conduct does not currently provide additional guidance on political activities. However, the Governors have proposed that it be amended to provide additional guidance, including prohibiting members from donating to political parties, from establishing a new membership of a political party, and from engaging in activity that may signal public support for a political party. A revised Code of Conduct will be considered by the Court of the Bank of England at its meeting in September. Any revised Code will be published on the Bank’s website and made available to your staff.

I would note that, ahead of his appointment to the Committee, Mr Sharp disclosed to the Chancellor and to the Treasury Committee that he had previously made donations to the Conservative Party. He has made no donations since joining the FPC.

I hope this letter provides clarity on the points noted in your letter.