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OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

BANK OF ENGLAND AND FINANCIAL SERVICES BILL [*LORDS*]

First Sitting

Tuesday 9 February 2016

(Morning)

CONTENTS

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Saturday 13 February 2016

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chairs: Mr Graham Brady, † Phil Wilson

† Baldwin, Harriett *(Economic Secretary to the Treasury)*
† Burgon, Richard *(Leeds East)* (Lab)
† Caulfield, Maria *(Lewes)* (Con)
† Cooper, Julie *(Burnley)* (Lab)
† Donelan, Michelle *(Chippenham)* (Con)
† Fysh, Marcus *(Yeovil)* (Con)
† Hall, Luke *(Thornbury and Yate)* (Con)
† Kerevan, George *(East Lothian)* (SNP)
† McMahon, Jim *(Oldham West and Royton)* (Lab)
† McGinn, Conor *(St Helens North)* (Lab)
† Mak, Mr Alan *(Havant)* (Con)
† Mann, John *(Bassetlaw)* (Lab)
† Marris, Rob *(Wolverhampton South West)* (Lab)
† Mullin, Roger *(Kirkcaldy and Cowdenbeath)* (SNP)
† Newton, Sarah *(Truro and Falmouth)* (Con)
† Skidmore, Chris *(Kingswood)* (Con)
† Tolhurst, Kelly *(Rochester and Strood)* (Con)
† Wood, Mike *(Dudley South)* (Con)

Matthew Hamlyn, Fergus Reid, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 9 February 2016

(Morning)

[Phil Wilson *in the Chair*]

Bank of England and Financial Services Bill [*Lords*]

9.25 am

The Chair: Before we begin, I have a few preliminary points. Please switch electronic devices to silent. Tea and coffee are not allowed during sittings. Members may, if they wish, remove their jackets during Committee meetings. Today, we will first consider the programme motion on the amendment paper. We will then consider a motion to enable the reporting of written evidence for publication. In view of the time available, I hope we can take those matters formally, without debate.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 9 February) meet—

(a) at 2.00 pm on Tuesday 9 February;

(b) at 11.30 am and 2.00 pm on Thursday 11 February;

(c) at 9.25 am and 2.00 pm on Tuesday 23 February;

(2) the proceedings shall be taken in the following order: Clauses 1 to 13; Schedule 1; Clauses 14 to 16; Schedule 2; Clause 17; Schedule 3; Clauses 18 to 20; Schedule 4; Clauses 21 to 38; new Clauses; new Schedules; remaining proceedings on the Bill;

(3) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Tuesday 23 February.—*(Harriett Baldwin.)*

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Harriett Baldwin.)*

The Chair: Copies of any written evidence that the Committee receives will be sent to Members and made available in the Committee room and online.

We will now begin line-by-line consideration of the Bill. The selection list for today's sitting is available in the room. It shows how the selected amendments have been grouped together for debate. Amendments grouped together are generally on the same or similar issues. A Member who has put their name to the leading amendment in a group is called first. Other Members are then free to catch my eye to speak on all or any of the amendments within that group. A Member may speak more than once in a single debate.

Please note that decisions on amendments take place not in the order in which they are debated, but the order in which they appear on the amendment paper. In other words, debate occurs according to the selection and grouping list, and decisions are taken when we come to the clause that the amendment affects. I hope that that explanation is helpful. I will use my discretion to decide whether to allow a separate stand part debate on individual clauses and schedules following the debates on the relevant amendments.

Clause 1

Membership of court of directors

Richard Burgon (Leeds East) (Lab): I beg to move amendment 9, in clause 1, page 1, line 7, at end insert—

"(2A) In section 1(2)(e), at end insert "who shall include four designated representatives including—

(i) Practitioner Representative,

(ii) Smaller Business Practitioner Representative,

(iii) Markets Practitioner Representative and

(iv) Consumer Representative."

The Chair: With this it will be convenient to discuss the following:

New clause 2—*Composition of the Court of Directors of the Bank of England*—

"In making nominations to the Court of Directors of the Bank of England, the Chancellor of the Exchequer must have regard to the importance of ensuring a balanced representation from the nations and regions of the United Kingdom.""

New clause 5—*Publication of transcripts of meetings of the Court*—

"In paragraph 12A of Schedule 1 to the Bank of England Act 1998, replace the word "record" with the word "transcript" in each place where it occurs.""

Clause stand part.

Richard Burgon: It is a pleasure to serve under your chairmanship, Mr Wilson, and to serve opposite the Minister.

On part 1 of the Bill, which is on the Bank of England, it is our intention to make the case for increased transparency and increased accountability at the Bank. At a time when the financial services sector, as the political system does, faces a lack of public support and public trust—or rather, not as much as we would like—it is in the interests of the sector as a whole and the Bank of England itself for it to present itself and its decisions in the most open way possible.

Clause 1 relates to membership of the court of directors. Amendment 9 regards representation on that court. We accept the proposals in the clause regarding membership of the court, but I note that concern was expressed in Committee in the House of Lords about a potential reduction in the number of non-executive directors in the court. Will the Minister clarify the number of non-executive directors that the Government foresee sitting in the court? In the light of amendment 9, which is in my name, and new clause 2, tabled by Scottish National party Members, the Government should make use of the option of nine non-executive directors in the legislation to ensure the widest possible representation and fullest possible input into and scrutiny of the Bank's work through the court.

Through amendment 9, we seek to amend the Bank of England Act 1998 to insert a requirement that, of the nine non-executive directors, four be designated as representatives of specific practitioner sectors, including a consumer representative. We recognise that the court,

as it stands, includes representatives of a variety of backgrounds, including, historically, the trade union movement. We welcome that and believe that that tradition and representation should continue.

To improve that representation, we propose drawing on the practice at the Financial Conduct Authority and the categorisation of its statutory panels to ensure that a practitioner representative for larger firms, a smaller business practitioner representative for smaller firms, a markets practitioner representative and a consumer representative are included. That is all I have to say directly in relation to amendment 9.

We believe that providing transcripts of the court's proceedings, such as *Hansard* provides of our own discussions in Parliament, allows for rich scrutiny of lines of argument and is a clear way to increase transparency and public awareness. In the United States of America, it is the practice to broadcast meetings of the chairs of the various Federal Reserve banks. In the new clause, Members have not asked the Bank to go that far, but we believe that that is a positive example. The aim is to enable the public to understand what is going on and to allow greater scrutiny of the Bank of England's valuable work.

George Kerevan (East Lothian) (SNP): I want to speak to new clause 2, which is a probing amendment. My response will be determined by the Minister's response. We are asking that, when making nominations to the Bank's court of directors, the Chancellor should have due regard to the importance of ensuring balanced representation from the UK's regions.

Overall, the Bill is useful in tightening regulation and in refocusing the organisation and direction of the Bank of England. In particular, there is much merit in tidying up the operation of the Bank's three main committees overseeing micro and macroprudential activity and the operation of the Monetary Policy Committee and, if that is accepted, in ensuring that the Bank's court becomes essentially the organiser of the organisation, with responsibility, as the main oversight, for how the Bank's operation works and for ensuring that there is managerial competence and value for money and that resources are well deployed between the Bank's various functions.

It has been generally recognised over the years that the court has sometimes had an ambiguous position halfway between being a proper corporate board and a policy-making institution. The Bill, correctly, separates the policy functions that go to the committees, leaving the board with the essential corporate governance. That is a step forward. My point is that, if we do that —if we redefine and concentrate the board's activity—we must look at the composition of the board and ensure that it is fit for purpose—a new board for a new competence.

The composition of the current board is a little too narrow. I accept that it has moved beyond the days when the court consisted simply of City grandees. In recent years, appointment to the board has widened; the international influence has widened. It includes a South African and an American. There is some industrial representation, but by and large there is still a feeling in the wider financial community outside London and in the wider industrial and commercial communities outside London that it is too City focused. For a board that is about not simply managing the City, but managing the central bank, it would be in the interests of the central bank and of commanding the respect of the central bank if there were a wider remit in relation to appointments to the board.

In the new clause, I am trying not to be too specific. A board should not be federalised; it should not consist of delegates. A board has overall responsibility. I presume that most people around this table have been on the boards of companies, large and small. I have been on at least two dozen boards in my rather geekish lifetime. When boards have discussions about who should be on them, they say, "Well, what experience do we have? Who is not represented? What area of competence do we need that will help the board to function?" That is perfectly proper.

I am just saying that, given the key role that the Bank of England plays in the UK, there should be more representation of the regions and nations of the UK. That is particularly the case because the banking community is no longer concentrated simply in the City of London. There are operations in Manchester, Bristol, Glasgow, Edinburgh, Cardiff and beyond, and the industries and sectors there want to feel some confidence that the Bank of England listens to them.

I know of course that the Bank of England has long had a system of agents. I suppose that many of us around the table will have met the agents in our region over the years. However, the agents have a different function. We are talking about a new board for a single bank.

Let me say—I hope that the Government will respect this—that the principle has already been conceded in one respect, which has been referred to. It has been traditional since the post-war period for the Bank to have a representative of the labour movement, the trade union movement, on the grounds that labour and capital were the two great elements of the economy. Given that that principle has already been conceded, all we are talking about is extending it.

My final point is that the distinguished Governor of the Bank of England, Mr Carney, of course comes from Canada, where the principle is already accepted. There is a rule that, in composing the board of the Bank of Canada, due consideration should be given to the provinces being represented. There is not a rule that every province has to be represented on the board of the Bank of Canada; it is not as specific as that and nor should it be. However, if we look at the board of the Bank of Canada, we see that, strangely enough, all the provinces are represented. Mr Carney is perfectly comfortable with that, so we are not trying to impose a burden that he has not had to face in the past.

Richard Burgon: I will comment on new clause 2, in the name of the hon. Member for East Lothian. As I said, we see merit in the proposal for wider geographical representation on the board and we believe that it complements our proposals to ensure that different stakeholders are represented. We would be interested to hear a little more detail if possible. He spoke about different centres of employment—Birmingham is one example—but I would be interested to hear specific comments on whether this proposal relates to personal residency or employment and, crucially, does the SNP believe that devolved bodies should make recommendations to the Chancellor?

[Richard Burgon]

To clarify, our new clause 5, on the publication of transcripts of meetings of the court, is a small tidying amendment, but we hope that it would have a significant impact by opening up the discussions of the court to wider scrutiny and that it would ensure increased transparency and accountability. That is why I will seek a Division on new clause 5 and why I invite all hon. Members to consider voting for it.

John Mann (Bassetlaw) (Lab): It is an honour and a privilege to serve under your chairmanship, Mr Wilson. The issue of the court and its lack of transparency—the amendments attempt to bring in some transparency—is one that has bypassed the majority of commentators and the general public. Hidden in the rather grand depths of the Bank of England, the court holds significant potential power, yet it has become embodied by not a concept of nepotism within the financial sector, but something akin to that. Perhaps "revolving door" is a better term. Someone goes in one door, they fail and go out of another door, and then they turn up in the same industry and at the same heights, time and again.

The criteria for who is on the board have always been shrouded in some secrecy. The hon. Member for East Lothian raised the question of the representation of the labour movement. That is a good and interesting point to examine in this context, because it remains the case today that Mr Prentis of Unison is on the court, as was Mr Brendan Barber of the TUC before him. I believe that Mr Bill Morris was on the court before that, and Mr Gavin Laird was too, in the distant past. Indeed, I used to see the papers that Mr Laird received at the time and the contributions he made. If they had been listened to at the time it would have had a significant impact on British competitiveness. Mr Laird used to argue repeatedly, very eloquently and in beautifully scripted speeches, that we were in danger of overemphasising the importance of finance at the expense of manufacturing. That is an issue not only for the Government, but for the Bank of England itself. Industry, as opposed to finance, needs to be in at the Bank. That is a fundamental weakness, because at present it is financiers as opposed to industrialists who are evident at the Bank, not so much in the expertise but in the mindset and the thinking which lead to decision making. The Bank thinks as financiers do, and it does not think more widely.

In the same way, my hon. Friends on the Front Bench propose to broaden the court with consumer champions and others who are missing at the moment. The Chancellor is decisively, deliberately and calculatedly removing consumerism and the consumer interest from regulation. Why? Because that is seen as a barrier to the ever onward growth and recovery of the big banks, not least RBS and Lloyds. Some commentators are speculating that there might be a fuel tax increase. That is quite wrong, in my view. What the Chancellor wishes to do is maximise his returns on the sale of shares in RBS and Lloyds. In itself, that is very sensible, and it is something that the Bank of England would support, does support and will support. However, speed and timing are critical in all of this. We have the Bank of England being unduly influenced by the Chancellor and the Treasury, while at the same time it is losing external influences from the world of industry. That includes both the employer and, potentially, the trade union influence.

There is the intriguing possibility of a more regional Bank. What would the world come to if there were people in the Bank of England who did not live in London or, more likely, in the commuter belt outside London? How would the world survive? It is a shame that my hon. Friends did not go even further and suggest that the court ought to meet not in the hallowed chambers on the third or fourth floor of the Bank, but in Manchester, Birmingham, Cardiff, Edinburgh, Aberdeen or Sheffield, in order that the public can see and hear it and get a feel for it. That would be an easy, significant win, and I am sure that the Bank's representatives listening in will take note of that. I commend the amendments to the Committee; they are excellent and should be agreed.

9.45 am

The Economic Secretary to the Treasury (Harriett Baldwin): May I say what a pleasure it is to serve under your chairmanship, Mr Wilson? I will speak to clause 1 and why it should stand part of the Bill before dealing with the amendments.

The clause makes the deputy governor for markets and banking a member of the court of directors—an important position that is not currently a statutory member of court. It also provides enhanced flexibility to add or remove a deputy governor or alter the title of a deputy governor, as well as the corresponding ability to make changes to the composition of the court, the Financial Policy Committee, the Monetary Policy Committee or the new Prudential Regulation Committee where a deputy governor is added or removed. Those important provisions will simplify the governance of the Bank.

Following the expansion of the Bank's responsibilities through the Financial Services Act 2012, a deputy governor for markets and banking was appointed with responsibility for reshaping the Bank's balance sheet, including ensuring robust risk management practices. That important position is currently filled by Dame Minouche Shafik, who is not a statutory member of court. We have talked about regional diversity this morning, but she ticks many boxes in terms of other forms of diversity, having been born in Egypt, worked a lot in America and being a British citizen. The clause amends the Bank of England Act 1998 to make that deputy governor a member of the court, ensuring equal status for all the Bank's deputy governors and simplifying the Bank's governance structure.

It should be noted that the power to add or remove a deputy governor will not permit the Treasury to remove a deputy governor or change his or her title while that deputy governor is in office. The measure will ensure flexibility for future need. At present, changes such as the creation of the new position of deputy governor for markets and banking can only be affected through changes to primary legislation. Instead, as a result of the clause, the Government will in future be able, by order and after consulting with the Governor, to adjust the size and shape of the Bank's senior management team to meet future requirements—for example, to bring in new expertise if that proved to be necessary.

The hon. Member for Bassetlaw asks why we are changing the number of non-executive directors on the court. To be clear, that change is not being made by the

Bill. The Bank of England Act 1998 requires up to nine non-executive directors, and following retirements there are currently seven non-executive directors on the court. A smaller board will be better for the Bank. The strong view of the Bank's non-executive chair, Anthony Habgood, is that a smaller board makes for more effective challenge and accountability of the executive. When there are fewer non-executive directors, each member has greater opportunity to pose questions to executive members and to debate with them. A larger court might encourage a round table of individual speeches, rather than enabling effective back-and-forth discussions with and challenge to the executive.

John Mann: Other than remarks from an individual, what is the evidence base from analysis of input over years for the Government seeing the reduction as being quantified in better input?

Harriett Baldwin: The hon. Gentleman serves as a member of the Treasury Committee, and I believe he was also a member of that Committee in the previous Parliament, so he will remember that it produced a report in 2011 called "Accountability of the Bank of England" which recommended that the court's membership be reduced to eight—smaller than we propose. It emphasised that a smaller court would allow for

"diversity of views and expertise"

while still being

"an efficient decision-making body".

He may want to go back and look at the evidence base that the Committee looked at. It is important to emphasise that the Bill does not make a change in terms of the membership, which remains at possibly up to nine.

Roger Mullin (Kirkcaldy and Cowdenbeath) (SNP): Does the Minister therefore believe that the Cabinet should be reduced in size?

Harriett Baldwin: The Cabinet, as the hon. Gentleman knows, has fluctuated in size over the years. On the evidence base, we are obviously talking about the experience of the Bank of England having in the past, particularly in the run-up to the financial crash, had a significantly larger court. I think there were 19 members in the run-up to 2009, and it was thought that that was a very large and unwieldy body. I think it still falls short of the number of people who currently attend Cabinet. There is a range of different views of effectiveness, but the important point to emphasise is that the Bill does not intrinsically make any changes to what is already there, although in practice we currently have seven non-executive directors on the court.

Importantly, the Bill also provides for the continued balance of internal and external members on the MPC, the FPC and the newly formed PRC. Following the addition or removal of a deputy governor, the Government may make a corresponding change to the number of members appointed by the Chancellor in the case of the FPC or PRC or the Governor in the case of the MPC.

New clause 5 would require the court to publish transcripts of its discussions within six months. I agree completely with the hon. Member for Leeds East that transparency is critical. The Bank of England makes decisions that affect all of us and it must be accountable to the public, and enhancing transparency is central to that. That is why I am so pleased to bring this Bill to the Committee: it makes governance of the Bank much more transparent in several ways. First, it makes the entire court responsible for the oversight functions. No longer will an oversight committee oversee the work of an oversight board. Every member of the board, executive or non-executive, will be clearly responsible for oversight of the Bank.

Secondly, the Bill removes a greater barrier to transparency and unnecessary complexity. In 2013, the Parliamentary Commission on Banking Standards noted the complexity of the present regime. It said:

"The accountability arrangements of the new structures"—

that is, the structures that exist now—

"are more complex than those of the previous regulatory regime. The PRA is a subsidiary of the Bank, and the FPC is a sub-committee of the Court of the Bank."

The Bill will change the FPC's status from a sub-committee of the court to a committee of the Bank and will end the PRA's subsidiary status, establishing the Bank's three policy committees on a common statutory footing.

The final and perhaps most significant means of enhancing transparency is bringing the whole Bank into the purview of the National Audit Office for the first time in its history. Allowing the NAO to conduct value-for-money reviews across the Bank will increase its accountability to Parliament and to the public. In turn, this will build greater public trust in the Bank's operations and governance, supporting its vital independence role in the UK economy.

I agree with the hon. Member for Leeds East that transparency is important: it improves accountability and ultimately makes the Bank's governance better. However, I disagree with him that mandating transcripts of court sessions will make governance better. As hon. Members are aware, the court is now required to publish the minutes of every meeting within six weeks. That was not always the case, but I am glad to see that the court has published historical records of its minutes, including those during the financial crisis. Through this, Parliament and the public now have greater insight into the governance of the Bank and the key decisions made. Transcripts are a different matter entirely.

We are fortunate in this debate because the impact of transcripts on Bank discussions has already been examined by Governor Warsh in his review, "Transparency and the Bank of England's Monetary Policy Committee". He said:

"Creating a safe space for true deliberations is among the most critical indicia of organisations that make good decisions, according to the leading academic and empirical literature and my own observation".

I am sure we all want a court that makes good decisions. The alternative would be extremely costly for all of us. Governor Warsh looked at the MPC's two discussion days and found that the different nature of the day one and day two discussions required different approaches to transcript publication. It makes sense to see which of those days is most like a court session and what Governor Warsh recommended. Day one is when the MPC members deliberate, challenge the evidence before them and question

[Harriett Baldwin]

one another—exactly the kind of role that the court performs very effectively. Day two is very different. In Governor Warsh's words:

"With few exceptions, the deliberations are nearly complete, policymakers are heard, and their judgments tallied."

I think it is clear that day one is closer to the deliberations and discussions of a board.

Roger Mullin: I thank the Minister for explaining Governor Warsh's views, but I would like to challenge his view that the academic literature is all one way. In fact, some of the academic literature points out that in more private settomgs, people are more prone to groupthink.

Harriett Baldwin: As a distinguished academic himself, the hon. Gentleman will know that academics often differ in their points of view. It is clear that in this case the distinguished Governor Warsh has come down in one way, and here in our deliberations we have come down in favour of producing a transcript, and *Hansard* performs that incredibly valuable role for us. I will make some further points, which I hope will convince him of the wisdom of the position that the Government are taking on transcripts.

When Governor Warsh looked at releasing transcripts of the day one deliberations, which he described as "safe space" deliberations, he found that

"Should the transcripts of the Day 1 deliberations be made public, the quality of the deliberative process would risk being materially impaired, to the detriment of sound policymaking."

He went on to make a clear recommendation that

"the Day 1 policy discussions should no longer be recorded nor should they be transcribed."

Publication of transcripts of meetings of the court would have a "chilling effect" on discussion and the quality of debate and harm decision making. I therefore hope that the hon. Member for Leeds East will not press his new clause.

John Mann: Having gone through in some detail an analysis of whether transcripts of meetings of the Monetary Policy Committee should be made available, on which there has been a thorough debate, including with members of the MPC, the Minister translates that to an amendment relating to the court. In relation to the court, what is the evidence base that suggests that the hearings or decision making of the court, as opposed to the MPC, would in some way be restricted by a transcript?

Harriett Baldwin: The hon. Gentleman makes an important point. The court oversees the MPC, the FPC, and the PRC under the proposals in the Bill. We have not discussed yet—I will be happy to do so—the fact that on the prudential side of discussions, the people on that committee will looking at material that constitutes, by any judgment, non-public information on the soundness of important financial institutions in this country. I am sure that, as a member of the Treasury Committee, the hon. Gentleman will agree that such material ought to be treated as extremely market-sensitive in any circumstances.

John Mann: The Minister is now jumping to a third body. The amendment relates to the court. The court does not make decisions on interest rates. The court does not delve into the financial situation of individual banks or other financial institutions. The court oversees; the court is strategic. Will she explain the relevance of her case in relation to the court, as opposed to the committee dealing with prudential regulation or with monetary policy?

Harriett Baldwin: I would have thought that it spoke for itself. The fact that the court is overseeing all these different committees, some of which will be considering material that is non-public information—

John Mann *rose—*

Harriett Baldwin: If the hon. Gentleman will allow me, I will give way to him when I have replied to his previous point. We are proposing the publication of a record of the court's meeting, and I agree with him that it is important for that record to be in the public domain. There is a clear difference between that record and a transcript.

10 am

John Mann: I thank the Minister for giving way again. I have the advantage over her of having been in the deliberations of the Treasury Committee on these matters. There is a world of difference between decision making on interest rates or the examination of whether a particular financial institution is in danger of collapse and going into that in a committee and the role of the court. The Minister seems to misunderstand the role of the court. Has she looked at and understood the transcripts the discussions of the Treasury Committee and the banking review on the question of the court? She is talking about different bodies. This amendment is about the court. The Minister said, in response to my earlier intervention, that this is self-evident. No, it is not self-evident—

The Chair: Order. This is an intervention.

John Mann: It is a precise intervention. Would the Minister like to comment?

Harriett Baldwin: In responding to the hon. Gentleman's intervention I will be a little bit cheeky, if I may, and highlight the fact that even that august body, the Treasury Committee of this House, sometimes meets in private. There is a need for a safe space for discussions at certain points. We agree with the hon. Gentleman that it is important to have a degree of transparency in terms of the court. We think that the record provided is adequate. I hope that the hon. Gentleman will not press the amendment.

John Mann: Will the Minister give way?

Harriett Baldwin: I would like to move on, but I will take another short intervention.

John Mann: I thank the Minister for giving way. Debate is important. The Minister now cites in evidence the Treasury Committee, which is a good example. The reason that minutes and transcripts of Select Committees are available is because of the strategic overview and public accountability that they provide. That is the whole point about the court. It is not making decisions on the minutiae or on the specifics. It is providing an overview and oversight, on precisely the same democratic logic as a Select Committee. That is the point of this excellent amendment. The Minister does not seem to understand the point of the court and what it is there for.

Harriett Baldwin: With great respect to the hon. Gentleman, I do understand that. Perhaps he would like some further examples. The court plays an important role in relation to emergency liquidity assistance at the time of a financial crisis. We have to agree as a Committee that there will be times when the court is discussing something that we do not want to have transcribed and put into the public domain. Personally, I thought that Governor Warsh was very convincing in comparing what happens on day one of the Monetary Policy Committee and what can happen at other times—not necessarily all the time—and how a record will be published. The hon. Gentleman will vote one way and I will vote another. I do not agree with the amendment.

Amendment 9 would require representation on the court of particular sectors, and require the Chancellor to have regard for balanced regional and national representation on the court. Obviously, the Bank of England plays a central role in the UK economy, and its policy decisions are vital to everyone in the United Kingdom. I therefore entirely agree with hon. Members about the importance of the Bank of England giving careful consideration to how its policy decisions affect people throughout the country. This is at the heart of the Bank's mission of promoting the good of the people of the United Kingdom by maintaining monetary and financial stability—indeed, that is precisely what the Bank does.

I will give a few examples. The Bank has representatives around the country; those agents work from 12 agencies, in Scotland, Wales, Northern Ireland and the regions of England, to gather information from businesses operating across many different sectors, including financial and non-financial firms. The regional agents, often joined by the Bank's governors and members of the policy committees, regularly meet and hold panel discussions with companies of a range of sizes across the UK to gauge economic conditions and inform the Bank's monetary policy and financial stability work. I trust that all members of the Committee have had an opportunity to observe that activity in their constituencies. If they have not, I strongly recommend that they do so, because those Bank activities are extensive. To give hon. Members an idea of how extensive they are: in 2014-15 the agents visited some 5,200 companies drawn from firms in all sectors and in all corners of the country; also, panel discussions were held with 3,700 businesses. Undoubtedly, the Bank goes to great lengths to ensure that it develops a detailed understanding of the conditions for businesses in all sectors across the whole United Kingdom.

In addition, the Prudential Regulation Authority's practitioner panel ensures that the interests of those who must put the PRA's rules into practice are communicated to the regulator. The panel includes representatives of banks, insurers, building societies and credit unions. The Financial Conduct Authority's consumer panel has a statutory right to make representations to the PRA, and the FCA chief executive sits on the Financial Policy Committee and the PRA board, and will sit on the new Prudential Regulation Committee.

Through this Bill we are going further in ensuring that the regulators take into account the diversity of business models operating in the financial sector. Specifically, we are making it clear that both the PRA and the FCA must take account of the differences between different types of firm, including mutuals, whenever they are discharging their general objectives. We argue that these amendments are unnecessary and, indeed, unhelpful. They would cloud the appointments process.

George Kerevan: Does the Minister not accept that there is a difference between being consulted and having a right to be consulted and having a right to feel that one is represented on a deliberative body?

Harriett Baldwin: There is, but the purpose of the deliberative body, as we have heard, is effectively to act as the board of the Bank of England, supervising the different committees. Prior to the financial crisis, members of the court were often selected specifically to represent a range of sectoral interests, including many of those proposed in the amendments. The first problem with the amendments is that requiring representatives of different sectors and regard to regional representation will entail a much larger and therefore oversized and dysfunctional court. Before the financial crisis, when the court had non-executives specifically to represent different interests—why stop at the four listed in the amendment?—the court had an incredible 16 non-executives, rendering it far too large to operate effectively and unable to hold the executive properly to account.

Roger Mullin: I think the Minister may have been in error when she implied that the new clauses would introduce a requirement. Our new clause 2 simply says "the Chancellor of the Exchequer must have regard to the importance" of balanced representation.

Harriett Baldwin: The hon. Gentleman is right to highlight that difference. Of course, what the Chancellor of the Exchequer would have regard to is the quality and ability of those individuals to perform the function they are asked to perform. The Banking Act 2009 sensibly limited the court to nine non-executives, and in practice we have now reduced the number of non-executives to seven while keeping that non-executive majority, which means that the court is now sufficiently small to form an effective body that can challenge the executive. The amendments before the Committee would inevitably mean a return to a large, inefficient and ineffective court.

A second problem with amendment 9, which would require sectoral representation on the court, is that it would give rise to conflicts of interest. The amendment calls for several practitioner representatives on the court. We have tried that in the past, too. During the crisis, the conflicts of interest meant that some of those on the

[Harriett Baldwin]

court who could have been of most assistance to the Bank had to leave the room for the most important decisions, such as on liquidity provision to the markets and on individual firms. That hampered the court's ability to respond effectively.

George Kerevan: Does the Minister agree that her statement about the ineffectiveness of the board, because of its narrow composition during the crisis, makes our point that we need wider representation across the country, across areas and across industrial sectors?

Harriett Baldwin: I do not think anyone disagrees with the idea that we would want to have a range of different abilities and skills on the court of directors. What we are fighting against in opposing the amendments is the propensity of such amendments to lead to a larger and larger group of individuals on the court. Importantly, in relation to highlighting the potential for conflicts of interest, the conflicts policy now makes it clear that, among other restrictions, members of the court should not accept or retain any interest that is in conflict with membership and should not normally be associated with a PRA or Bank-regulated firm, whether as a director, employee or adviser. That ensures that the wide-ranging expertise—we all agree that that is necessary—appointed to the court can be deployed without obstacles, and leaves the court better equipped to respond to a crisis. The amendment would unravel those arrangements, and I argue that we should oppose it; we should not allow it to take us backwards.

The third and most important concern about the amendments is that they would impose unnecessary and undesirable constraints on appointments to the court. In the past three years, the court has been transformed. The Chancellor has appointed the highest-quality team, with significant experience of running large organisations and deep expertise in matters relevant to the Bank. The Government look far and wide for the best candidates, with roles advertised in the international press. Let me be clear: obviously, there are highly competent and highly qualified individuals who work in the sectors proposed and from all the regions across the UK. The amendments would constrain the appointments process utterly unnecessarily, potentially preventing us from forming the highest-quality, most experienced board for one of the most important institutions in the country.

John Mann: The Minister lauds this dramatic improvement in the court during the past three years. Can she give a specific example of a key decision made by the court during the past three years that has benefited by that enhanced performance?

Harriett Baldwin: Not off the top of my head. I cannot specifically think of anything, other than to highlight the fact, in relation to the previous life of the court, when we were dealing with a much larger organisation, that all the reviews since the financial crash have highlighted the unwieldiness of that organisation and the lack of clarity in terms of conflicts of interest as being among the underlying imperfections in the financial regulation that we inherited in 2010.

John Mann: The decision in Sweden, for example, to move to negative interest rates, the collapse in oil prices, the mistake that the Chancellor made with the timing of the RBS shares sale and the successful prosecution in relation to LIBOR are all issues that have originated within the past three years. Did the court in its wisdom say anything about any of them in giving advice to the Bank?

Harriett Baldwin: As the hon. Gentleman will be aware, a number of different independent reviews have been commissioned by the oversight committee during the past few years. I completely dispute his point about the sale of RBS shares. Given how much lower they are today, I would have thought he would welcome the fact that the Government were able to sell the first £2 billion-worth in the market last August. He and I will clearly vote along different lines on this matter. The Government feel that the amendment would constrain the appointment process, to the detriment of effective decision making in the court and in effect, therefore, to the detriment of the Bank's overall effectiveness. Undoubtedly the court should have a breadth of experience and knowledge, and we certainly want different perspectives to be brought to bear.

It is also important that the court is able, when necessary, to commission the kind of review about which the hon. Gentleman speaks. There has been the Plenderleith review to increase emergency liquidity assistance capabilities and the Stockton review, which made recommendations on how the Bank communicates its forecasts. We have even spoken this morning about the Warsh review, which has made the very recommendations that we are considering, regarding MPC procedures and the governance of the Bank of England.

The current court contains a remarkable collection of experience and talent. Among the directors are the chief executive of a major telecoms provider.

10.15 am

George Kerevan: The Minister is being very sporting in giving way this morning. Can I take it from the tenor of everything she has said that the place for the trade union representative on the court, which we have had since world war two, is now in jeopardy?

Harriett Baldwin: I do not know where the hon. Gentleman would get that impression from. It is important that we have a chief executive of a major telecoms provider, a chief executive of a major power utility, a private equity specialist, a leader of a global information services group and a leader of a major public sector trade union. The chair, Mr Anthony Habgood, is one of the most experienced and respected company chairmen in the country.

George Kerevan: There has always been, since world war two, a place reserved on the court for a leading trade union figure. That is not written down anywhere, but it has always been accepted. Will it continue?

Harriett Baldwin: Nothing in my remarks this morning has suggested any change whatsoever in that policy, but it is important that the best people are selected for the

roles and we do not accept the Opposition amendments, which would further constrain the selection process. I hope we can all agree that every member of the court, wherever they are from, should consider in their decision making the Bank's impact on everyone in the UK, across the UK, not just in one region or one individual sector.

The amendments call for a different kind of court, made up of representatives from UK regions and representatives of narrow interests, and that would result in a court riven by conflicts of interest. We have tried that kind of court before and we know how the story ends. I hope that members of the Committee agree that we should not allow the amendment to take us back there.

Richard Burgon: We will not seek to divide the Committee on the amendment, but we might, of course, revisit the matter on Report.

On new clause 5, we have heard powerful interventions from the hon. Member for East Lothian, and insightful ones from my hon. Friend the Member for Bassetlaw, who speaks, on this and other matters, not only with great experience because of his role on the Treasury Committee but with great common sense about transparency and representation. I am disappointed, therefore, by the Minister's lack of support for the new clause. She says that she supports transparency but, with respect, I do not believe that she has offered greater transparency in this regard, not even with the compromise of an above-the-line and below-the-line model for transcripts, which is used by local authorities and school governor boards. On that basis. I will wish to press the new clause to a Division and I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

The Chair: I remind colleagues that votes on new clauses will be taken at the end of the Bill proceedings.

Clause 1 ordered to stand part of the Bill.

Clause 2

Term of office of non-executive directors

Question proposed, That the clause stand part of the Bill.

Harriett Baldwin: I am glad that you are finding it as confusing as I am, Mr Wilson, that there is a group 2 and a clause 2 and what have you. Clause 2 enables the Government to extend the appointment of a non-executive director. The standard length of appointment for a non-executive director is currently four years, and this will be maintained following the passage of the Bill. However, if necessary, the Government will have the power to extend the appointment by up to six months. If the individual is subsequently reappointed to the court, the length of their new tenure will be reduced by the length of the extension.

The ability to extend a non-executive director's appointment provides a number of key benefits. First, the ability to extend the terms of appointments by a few months enables the end dates of non-executives to be staggered, which supports smooth transitions in membership, preventing a significant change in personnel at any one time. Secondly, should a member of the court resign or retire unexpectedly, extending the term of one or more non-executive directors can provide resilience during a potentially turbulent time. Finally, enabling this extension will bring the court in line with the FPC and the MPC, whose members can already have their term extended by up to six months.

Richard Burgon: I will be brief, because the Opposition are happy with the proposal to provide for the extension of the term of office of non-executive directors. However, we feel that this is an opportunity to highlight again the important role that non-executive directors can and should play, a point made effectively by my hon. Friend the Member for Bassetlaw in the debate on clause 1. There was a clear suggestion in the other place that the Government believe that a smaller body of non-executive directors on the court would be more efficient, and the Minister has made that clear again. I take this opportunity to reiterate the point that it is necessary to ensure broad representation and the appointment of active and dedicated members. As my hon. Friend has indicated, the world would not come to a stop if there was broader representation, both geographically and in terms of life experience.

John Mann: I warmly welcome—warmly—this clause, as I do the Minister's confirmation to the hon. Member for East Lothian that the Government have no intention of removing the trade union representative from the court. I warmly welcome that. It is an exceedingly sensible approach that will resonate well beyond this place. This clause should be unanimously adopted.

Harriett Baldwin: Excuse me if I faint from astonishment, Mr Wilson. I do not think that that has ever happened to me before with the hon. Member for Bassetlaw.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

Abolition of Oversight Committee

Richard Burgon: I beg to move amendment 10, in clause 3, page 4, line 5, after "would" insert "materially".

The Chair: With this it will be convenient to discuss the following:

Amendment 11, in clause 3, page 4, line 7, leave out "may" and insert "shall".

Amendment 12, in clause 3, page 4, line 11, after "directors" insert—

"and

(c) for the review to be conducted by a person who is not an employee or director of the Bank."

Richard Burgon: The abolition in clause 3 of the oversight committee was clearly a very controversial part of the original Bill, as evidenced at each stage of the debate in the House of Lords. My colleague in the other place, Lord Tunnicliffe, supported Lord Sharkey

[Richard Burgon]

in seeking to challenge it. Labour Members believe that the abolition of the oversight committee is an attack on accountability within the Bank, and yet another example of the Government rolling back recent legislation. I am sure that we will come to that topic on another day.

Not only is the reverse burden of proof or the presumption of responsibility being removed before it is even implemented, but the oversight committee was established only in the Financial Services Act 2012, as hon. Members will remember. The Government clearly felt unable to sustain their line of argument, and in amending the clause to allow a majority of non-executive directors the power to initiate reviews, they have made a welcome concession. It remains our view that the abolition of the committee is a retrograde step. We are yet to be convinced that affording the non-executive directors this power without the existence of the previous forum for discussion will mean that power can be exercised effectively. Perhaps the Government can say how they believe the non-executive members will discuss their concerns outside of the meetings of the court. Will they have to organise something akin to a stand-alone non-executive directors meeting? Perhaps such a forum exists, and the Minister can inform and enlighten me about it.

Following the negotiations in the other place, we have decided to allow this change in the Bill to be made. We will keep a watching brief on how it works over the coming months and we will seek to take advice from the non-executive directors on how they feel it has affected their ability to carry out their oversight functions.

We have proposed a number of amendments to improve the clause, particularly amendment 12, which seeks to increase the authority of the non-executive directors. On Report in the Lords, the Government stated that the initiators of a review among the non-executive directors would determine that they have the power to decide who should carry it out. It could be someone external or someone internal, from the independent evaluation office.

During a Treasury Committee hearing, the Governor was questioned at length, and told the Chair of the Committee that the IEO's work is set by the court. Therefore, our amendment seeks to give the non-executive directors a duty to bring in external expertise and analysis to conduct such a review into the work of the Bank. Amendments 10 and 11 would further clarify and strengthen the Bill in that regard.

George Kerevan: I, too, had reservations about the abolition of the oversight committee. I warm to it to the extent that we have clarified, or are in the process of clarifying, the role of the court in a narrower sense as a proper functioning board of a wider organisation, although the Minister's responses in the previous debate have given me some cause for concern.

It is important to grasp that the existing oversight committee is nothing more than the non-executive directors meeting as a body, so the existing oversight body gives some official grounds for the non-executives to meet. I have been on many boards where it was quite the norm for non-executives to meet informally, and one trusts that the non-executives on the court are of sufficient experience to be able to do that. Nevertheless, there must be a worry if the current ability to meet separately and to be resourced as the oversight committee is taken away. Therefore, the amendments being proposed to the clause are a useful way of just stressing on the part of Parliament that what I have described is what we expect the non-executives to do.

It might be important to consider circumstances where the non-executives might want to discuss the overall direction of the Bank. We have had one such experience in the last couple of years. The major activity of the Prudential Regulation Authority, which is soon to be the Prudential Regulation Committee, has been to conduct the stress tests on the banks. It does so under separate legal obligations from Europe. The stress testing is a highly extensive and highly resource-driven activity, and there were issues in the first round of stress testing because resources were clearly being directed from other parts of the Bank to help the PRA to do its job. There were issues about who was making decisions, and about whether enough resources and staff time were being made available from the other parts of the Bank to the PRA. A number of the non-executive directors became slightly alarmed about how the stress tests would be conducted and about the availability of the necessary resources.

There can be quite significant points when the non-executive directors would have to say, "We are worried about the deployment of resources by the executive directors. We want to stand back and look at how this is being done." The non-execs must have the power as a body to lean against the significant influence of the executive. The Bank of England is one of the major institutions of the UK and of global banking, and the Governor of the Bank, Mr Carney, for whom I have a great deal of respect, is one of the most senior central bankers in the entire world. Leaning against him when he says, "Do this or do that," is difficult. The amendments would give the non-executives some backbone, so when they are worried about the direction of resources they can say, "Whoa."

10.30 am

John Mann: My view is similar to that of the hon. Member for East Lothian, in that I do not object to removing the oversight committee if the functions are effectively outlined. In addition to the example of the stress tests, there are various potential events—some would call them calamities, others opportunities—that would affect the structure and ethos of the Bank of England. They include British exit from the European Union or Scottish independence. They would require the court to act effectively and strategically. If there is a feeling of conflict in direction—direction being what should happen and what people should spend their time on—the ability to draw in external reserves and expertise is key. The power to do that has to be there.

Amendment 12 in particular would be useful to the Government and would complement their approach. I put it to the Minister that it would be helpful, given the direction of travel. I tend to concur with the Treasury Committee's general view on this point, but only if the court is right and the non-execs have that power. The Treasury Committee, on behalf of Parliament, has made it clear that bringing the non-execs from the court into the Treasury Committee and having that dialogue in

public and producing transcripts of it, which has not happened in the past, will be an important feature in the future.

Harriett Baldwin: The line-by-line consideration of this provision in the other place and here this morning has been extremely helpful. Before I speak to the amendments, let me give the Committee an example of the problems in the oversight committee's current arrangements which I think will inform our debate. The hon. Member for Bassetlaw mentioned the 2013-14 foreign exchange market investigation, which sought to establish whether any Bank officials were involved in or aware of the FX market manipulation. In October 2013, the Bank's governors initiated an extensive internal review, and they regularly briefed the court at its meetings from November 2013 onwards. In March 2014, it became clear that an independent investigation would be appropriate. The oversight committee took over the investigation and appointed Lord Grabiner QC. That is a very good example of the oversight functions. In practice, the executive needed to join the oversight committee discussions for the oversight functions to work and be effective, both as the investigation progressed and once attention turned to delivering the recommendations. It would be better practice to make the oversight functions the responsibility of the whole court. That is the purpose of the clause.

I welcome the opportunity to speak to the amendments and to explain the improvement in the oversight arrangements at the Bank of England and the power we have ensured for the court's non-executive majority. The Bill brings the court closer to the model envisaged by the Treasury Committee, which called for a board with powers to conduct ex-post reviews of the performance of the Bank; for board members to be authorised to see all the papers submitted to the Monetary Policy Committee and the Financial Policy Committee; and for the board to be responsible for reviewing the processes of the Bank's policy committees. Making the oversight functions the responsibility of the whole court makes it clear that every member of the court, executive and non-executive, can be held to account for the use of these functions. No member of court can claim that the oversight functions were not their job, since they will now rightly be the responsibility of all.

That replaces the current arrangement in which there is effectively an oversight committee overseeing the work of an oversight board. That is neither efficient, nor best practice. In fact, on Second Reading my right hon. Friend the Member for Chichester (Mr Tyrie), Chair of the Treasury Committee, put it well when he said:

"The oversight of the executive will be the responsibility of the court itself, rather than a sub-committee. Even though it was not called a sub-committee, it was, in fact, a sub-committee, and a weaker committee than the court."—[*Official Report*, 1 February 2016; Vol. 605, c. 668.]

During the Bill's passage through the House of Lords, we introduced the power, which has been welcomed by members of that House, that this amendment seeks to alter. This part of the Bill ensures that a majority of non-executives can always initiate performance reviews without needing to secure the agreement of a majority of the whole court. If just four non-executive directors want a review, they will be able to initiate it. Under our proposal to give more powers to the non-executive directors to do their job effectively, the initiators of a review would determine who should carry it out. This could be someone external or someone internal, including the Bank's relatively new Independent Evaluation Office. The amendment would take away their discretion and make the new Independent Evaluation Office irrelevant.

The Bank's Independent Evaluation Office reports directly to the non-executive chair of court. A few months ago, it published a review into the Bank's use of forecasting—a clear example of where an internal review is appropriate. In our opinion, Lord Grabiner's inquiry into Bank officials' awareness of market manipulation in the foreign exchange market was an example of where an external review was appropriate.

The Bank's non-executive directors, as we have heard in a previous debate, are selected for their ability to bring new perspectives and experience and to challenge and scrutinise the Bank's executive. It is right to give them the powers to ensure they are able to fulfil this role. The amendment would send a message that we do not trust the non-executive directors to do their job. For the discretion of those high-quality non-executives to determine what reviews should be carried out and who should carry them out, it would substitute a conveyor belt of external reviews.

Those commissioning a review, whether the court as a whole or the non-executive directors, are best placed to decide whether an internal or external review is most appropriate. The Bill rightly allows that discretion for the whole court and for the non-executives. The amendment would take away that choice, which we think would be bad news for effective oversight. I hope the hon. Member for Leeds East has listened to the arguments. We all agree that the important power in the Bill for the non-executives to act independently to initiate reviews of the banks should not be constrained in this way, and I hope that after due consideration, and after the extremely valuable debate in both Houses, he will withdraw his amendment.

Richard Burgon: We do not intend to divide the Committee on the amendments to clause 3, although I will make one observation. I might get the quote wrong, but I remember a line in Shakespeare's "Julius Caesar":

"I come to bury Caesar, not to praise him."

The oversight committee was praised by the Minister, but now, under clause 3, it is to be buried. It was praised by the Minister in response to an intervention by my hon. Friend the Member for Bassetlaw, and now we see that it is about to be buried, which we regret. We welcome the concessions that have been made. We do not wish to press the amendment, but we reserve the right to return to these issues on Report. I also point out that the Internal Evaluation Office can continue, tasked by the court. The amendment refers to decisions by non-executive directors. Internal evaluation is the Bank marking its own homework, which should worry us all. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Harriett Baldwin: The clause gives the oversight functions previously delegated to the oversight committee, which has been a sub-committee of the court, to the full court.

[Harriett Baldwin]

What do we gain by making the oversight functions the responsibility of the whole court? We want to keep those functions, which we all agree are important, and now every member of the court, executive and non-executive, can be held to account for the use of those functions. Should something go wrong, no member of court could ever claim that the oversight functions were not part of their job. They will now rightly be everyone's responsibility.

We have heard how that arrangement was endorsed by my right hon. Friend the Member for Chichester on Second Reading, but it is worth harking back to what the Parliamentary Commission on Banking Standards recommended when it set up the oversight committee. In its report, the commission endorsed the Treasury Committee's recommendation that the Bank's board should be responsible for conducting the ex-post reviews of the Bank's performance and we believe that that is precisely what the Bill will achieve. The commission went further—I am sure that hon. Members will have read its report before arriving this morning. On page 482, the commission rejected the oversight committee created in the 2012 Act. The commission denounced the committee and despaired that

"It, rather than the Court as a whole, will be responsible for monitoring the Bank's response to, and implementation of, the recommendations of any review it commissions."

It is therefore important to stress that, through the Bill, the court as a whole will be made responsible for ensuring oversight of the Bank.

We have also talked about how the clause will enable full and frank discussion involving both the executive and the non-executive majority on how best to exercise the court's oversight functions. The non-executives bring challenge, scrutiny and outside experience while the executive minority provides the in-depth knowledge of the Bank's operations. By abolishing the oversight committee, we bring the court closer to the model envisaged by the Treasury Committee, which called for: a board with powers to conduct ex-post reviews of the Bank's performance; board members to be authorised to see all the papers submitted to the MPC and the FPC; and the board to be responsible for reviewing the processes of the Bank's policy committees.

It is important to emphasise that the Bill protects the ability of those non-executive directors to initiate performance reviews. We do not need them to secure the agreement of a majority of the whole court. Should a majority of non-executives wish to initiate a review, the rest of the court will not be able to block it. The initiators of such a review would determine who should carry it out. It should be someone external or internal, including the Bank's new Independent Evaluation Office.

The clause safeguards the non-executives' oversight of the Bank and provides additional protection against the emergence of groupthink. I commend the clause to the Committee.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

Clause 4

FUNCTIONS OF NON-EXECUTIVE DIRECTORS

Question proposed, That the clause stand part of the Bill.

Harriett Baldwin: I can canter right through the clause, which requires the court to establish a sub-committee of at least three non-executives to determine the remuneration of the Governor and deputy governors. Clearly, we would not want the executive to set its own pay, so to require that that power be delegated to at least three non-executives brings the legislative requirements for the Bank's remuneration committee in line with UK corporate governance code. The current remuneration committee has four members.

Richard Burgon: I too will be brief. I will not be cantering as I know very little about horses, but as we have already discussed non-executive directors in the debate on our amendment to clause 1, I have nothing further to add.

Question put and agreed to.

Clause 4 accordingly ordered to stand part of the Bill.

Clause 5

FINANCIAL STABILITY STRATEGY

10.45 am

Question proposed, That the clause stand part of the Bill.

Harriett Baldwin: This will be more of a trot—*[Interruption.]* There are no Trots opposite me today, obviously.

Clause 5 will provide the court of directors with an express power to delegate the production of the financial stability strategy within the Bank. Subsection (3) makes it clear that the court retains the ultimate responsibility for any delegated duty or power, including its duties in relation to the financial stability strategy. The clause will allow the Bank to utilise its internal expertise to produce the strategy, while maintaining a clear line of accountability to the court. The drafting reflects the discussion in the other place, where it was felt that the Government's initial proposal lacked sufficient clarity. Those concerns were addressed by the Government amendments that bring us the clause as it stands today. I hope that the Committee agrees that the clause will afford the Bank the necessary flexibility when producing the strategy while ensuring that the court will be held to account for its contents. I commend the clause to the Committee.

Richard Burgon: In the debates on the clause both on Second Reading and in Committee in the Lords, it was argued that it should not simply confer on the Bank the power to set the financial stability strategy. The original proposal was vague, but although it was subsequently clarified by the Government amendment that conferred the power on the court of directors, the Opposition are not convinced that that is sufficient.

The impact assessment says:

"At present, the Bank's financial stability strategy is set by the Court after consultation with the FPC…and HMT."

It goes on to say that making the Bank responsible for setting the strategy and allowing the court to delegate its production within the Bank will ensure that the court is responsible for the running of the Bank and the

Bank's policy committees are responsible for making policy. The clause does not make it clear exactly what the financial stability strategy is supposed to be. All it does is create a power and impose the responsibility to create such a strategy relating to systemic risk in the UK financial system.

I shall repeat a concern raised by my colleague Lord Tunnicliffe regarding the financial stability strategy, because the response in the other place was not sufficient. Lord Tunnicliffe highlighted how a five-page strategy document was produced in 2013; it was then revised and published in the 2014-15 report, wherein it had been reduced to one column. In the Bank's 2015-16 report, there was no mention of a financial stability strategy in the court's ownership. Will the Minister confirm the importance of the financial stability strategy? It should be clear who is responsible for such a strategy.

Clause 5 creates a problem. A future financial stability strategy will emerge from somewhere within the Bank of England. It would be preferable if the people who are to be directly responsible for its production were identified in the Bill, rather than responsibility being conferred on the court with powers to delegate elsewhere. It would make most sense if the people made responsible for producing the strategy were the members of the Financial Policy Committee, as we have set out in new clause 6, which we will discuss later.

John Mann: The debate on the clause is very important, because the little-discussed danger is that we are creating an all-powerful Governor who determines, in his or her ultimate wisdom, a financial stability strategy for the country—as if everything will then be fine.

The current Governor obviously has a bit more time on his hands because interest rates have not risen since 2009. The MPC, with its monthly meetings having gone down to eight a year, has not had a great deal to do other than maintain the status quo. In some ways, that is precisely the problem that was there previously. Before the 2008 crisis the Governor was responsive—looking at things, making speeches about what had happened in the past month or two and trying to tweak the system—and examination of the underlying problems in the system, in the sector and on occasion in the economy as well simply did not happen. The danger is that we again become complacent about such things. That is precisely why the Treasury Committee was keen to see an enhanced and powerful court of directors taking responsibility. It would be useful to have a clear statement from the Minister, endorsed by Parliament, that the model being created is not that of the all-powerful Governor, and nor is it one that we expect to see in future.

The Treasury Committee is a wonderful body, with great membership over the years and reasonable membership even to this day, but a clear message about what is expected of it by Parliament would be valuable: the Committee, on behalf of Parliament, is expected to hold the court to account properly and effectively. That has not been the case over the past decade. The chair of court has appeared, but the non-execs have been invisible. With the court having a more important role, it is critical that the Treasury Committee be given a clear indication by Parliament that it is expected to give a reasonable amount of its time to holding the court to account publicly for the new powers, whether the Committee likes it or not, or does it joyously or reluctantly.

It will be useful to hear from the Minister about those two points, so that we get her views on the record.

George Kerevan: In itself, the clause is innocuous. It is a tidying-up operation, but lurking beneath it is a danger. Standing back from the restructuring of the policy committees of the Bank, we appear to be ending up with an exercise in bureaucratic symmetry—a committee to do this and a committee to do that, micro, macro, prudential or supervision, and the Monetary Policy Committee. The different committees are not supposed to talk to each other, doing discrete policy. That looks all right—someone is doing it—but what we are in fact ending up with is what I want to underline to the Minister and, through her, to the Treasury team.

The danger is that in creating bureaucratic symmetry, we have not got very far in creating a workable regulatory regime that is robust enough to meet the next crisis. One of the problems is that we are creating a silo for fiscal stability—basically, checking when a bubble arises and stopping it—and a silo for monetary policy, but the two are not talking to each other, so we are in danger of creating conflicts between the two main policy committees.

It is perfectly possible for the Monetary Policy Committee to go in a separate direction. At the moment it is refusing to raise interest rates, but that is leading to the committee in charge of fiscal policy and financial stability starting to discuss whether it should use its financial buffers to slow down a bubble in the housing market. It is possible, but a bit crazy, for the two different committees to take two different stances when the whole point of putting financial stability and monetary policy under the same roof—the Bank—was meant to be a co-ordinated policy.

Assigning responsibility for financial stability to the Financial Policy Committee does not get us off the hook of someone somewhere laying down broad policy objectives. The MPC has broad monetary policy objectives—I think that in the present climate of deflation, they are probably the wrong ones—but the FPC has very vague guidelines as to what it should be doing, and so suddenly we discover, in default, that the only person in the land who is actually overseeing all the different policy options is the Governor himself, and he is not even getting clear enough direction from the Treasury. By all means support clause 5 as a tidying-up operation, but it still leaves big holes in terms of who is actually laying down the major policy directions for the committee.

Harriett Baldwin: Opposition Members have suggested that the Bill, in and of itself, makes a change to the power and importance of the role of the Governor of the Bank of England. I would submit that the Governor of the Bank of England is an incredibly powerful and important appointment, but I would not say that the statutory powers of the Governor are increased from their already elevated level by the Bill. Obviously, he is the one who has a role across all the different committees, but he has always had a very important role.

The hon. Member for Leeds East is absolutely right to highlight the fact that in the other place there was extensive debate on the precise wording of the clause. Convincing arguments were made to change it and the Government tabled amendments to provide the court with an express power to delegate determination of the

[Harriett Baldwin]

strategy. That is a change from the original intention after the consultation undertaken in the summer. To be clear, it will be for the court, as the governing body of the Bank, to decide who is best placed to set and review the strategy.

The hon. Member for Bassetlaw asked specifically about the role of the Treasury Committee in continuing to scrutinise the role played by the Bank of England, the Governor and the court. I see nothing before us today that would change the current arrangements whereby the Committee has an important role in taking evidence.

Hon. Members asked about the co-ordination between the Monetary Policy Committee and the Financial Policy Committee. They are independent committees with separate objectives. It is important that the Governor sits on both committees and is able to see what is going on in both committees, but we think it right to strike a balance to ensure that each of the committees remains focused on its individual remit while fostering interaction between monetary and macroprudential policy.

There has been a good debate in both Houses, illustrating the value of line-by-line scrutiny. I think that we have landed in the right place and I commend clause 5 to the Committee.

Question put and agreed to.

Clause 5 accordingly ordered to stand part of the Bill.

Clause 6

MONETARY POLICY COMMITTEE: MEMBERSHIP

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss new clause 6—*Financial Policy Committee: procedure*—

"In paragraph 11 of Schedule 2A to the Bank of England Act 1998, after subsection (7) there is inserted—

'(7A) The Financial Policy Committee shall inter alia at least each year commission and publish promptly external research into the level of systemic risk to the stability of the financial system in the UK.

(7B) As soon as reasonably practicable after each meeting of the Financial Policy Committee, the Bank shall publish a record of the meeting before the end of the period of 6 weeks beginning with the day of the meeting.'"

Harriett Baldwin: It will be useful to consider the new clause, tabled by the hon. Members for Leeds East and for Wolverhampton South.

Clause 6 brings the Financial Policy Committee into line with the Monetary Policy Committee and the Prudential Regulation Committee. It makes the Financial Policy Committee a policy committee of the Bank, rather than a sub-committee of court.

11 am

Aligning the statutory status of the Financial Policy Committee with that of the Monetary Policy Committee and the proposed Prudential Regulation Committee will simplify and bring greater clarity to the governance of the Bank. Clause 6 also adds the deputy governor for markets and banking as a member of the Financial Policy Committee. That is a role with clear read-across to the work of the FPC, and it is right that the committee should have the benefit of the deputy governor's expertise. A new external member will also be added by the clause, in order to maintain the balance between executive and external members. That will ensure there continues to be a strong challenge function on the committee, to avoid the risk of groupthink.

While clause 6 deals with the status and membership of the Financial Policy Committee, new clause 6 would impose two requirements on the committee. I will address each of those requirements in turn. Proposed new subsection (7A) would require the FPC to commission and then publish external analysis of the level of systemic risk in the UK. I hope I can convince the Committee that that subsection is unnecessary.

The Bank of England Act 1998 already requires in section 9W the Financial Policy Committee to produce a financial stability report twice a year and for that report to set out the committee's views on the stability of the financial system, including its assessments of the strengths and weaknesses of that system. The FPC draws on many sources in order to make that assessment, both from within the Bank and externally. For example, the Bank undertakes a systemic risk survey of market participants that seeks their views on risks to the financial system. The results of that survey are published alongside the financial stability review.

There are already commentators outside the Bank who provide analysis of financial stability. To name but a few, the International Monetary Fund undertakes the annual article IV process to assess the economic performance and financial stability of the UK and produces a global financial stability report; the Organisation for Economic Co-operation and Development produces papers on UK financial stability; and the European Systemic Risk Board publishes an annual assessment of systemic risks in the financial system of the EU. All of that is before I even mention the legions of financial sector analysts who produce reports every day on a wide range of financial stability issues.

If the Opposition are concerned that the Financial Policy Committee's reports might be a product of Bank groupthink, I can reassure them that the existing legislation has provisions in place to prevent that. As I mentioned, the external members of the FPC provide outside views and challenge to the executive members of the committee, helping to prevent groupthink. The Government place great importance on that challenge function, which is why clause 6 increases the number of external FPC members by one, so as to maintain the ratio of executive members to external members. External members of the FPC have dedicated staff within the Bank so that they can undertake analysis and research upon issues of interest to them, which ensures that the external members have sufficient resources to undertake independent analysis.

As well as the provisions in the 1998 Act, the Bank has taken many steps to seek out views from external sources. The Bank has a long-standing tradition of engagement with other central banks, international organisations such as the Financial Stability Board and academics. Indeed, the Bank currently has an ambitious agenda of research—the "One Bank" research agenda—which extends across all the Bank's areas of responsibility and is an excellent example of the Bank's open and collaborative approach. The Chancellor was one of

many guest speakers at the Bank's open forum on 11 November last year, which I hope Opposition Members were able to attend, alongside academics and members of the financial services industry. The Bank sought external views on a range of topics.

Proposed new subsection (7B) would require the Financial Policy Committee to publish a record of its discussion within six weeks of each policy meeting. I am sure the hon. Members for Leeds East and for Wolverhampton South West will be reassured to hear that, under the Bank of England Act 1998, there is already a requirement in section 9U for the FPC to publish a record of its policy meetings within six weeks of them taking place. I hope I have convinced the Committee that clause 6 should stand part of the Bill and that new clause 6 is unnecessary. I hope the hon. Member for Leeds East will not press the new clause.

Richard Burgon: As the Minister explained, the Financial Policy Committee is to be transformed into a committee of the Bank of England. As she explained, it had existed previously as a sub-committee of the court. Again, we see what one commentator, Professor Alastair Hudson, described as a spaghetti of committees. Perhaps we need to look at simplifying them so that the people we represent can understand better the system that is intended to serve them.

The FPC should be a body that takes a much more visible role when there are systemic challenges to the UK financial system. The problem that is created by the so-called spaghetti of committees issue is that it is unclear when and if it will relate to finance as opposed to economic policy more generally, and when it will relate to systemic risk rather than simply to the solvency risk associated with an individual financial institution. The spaghetti of committees issue means that the individual bodies have to fight for their role within the regulatory structure, instead of having their regulatory role clearly established by statute.

We believe that considerable thought should be given to how the FPC could play a more active role in the creation of policy relating to systemic risk. At one level, the body that is supposed to analyse the highest levels of risk to the UK economy ought to be one that regularly takes the lead in relation to policy formulation in that context. The Minister explained and reiterated quite rightly how many external views are published, but it would be helpful for the economy as a whole if the views of the members of the FPC were given greater publicity.

Our intention in proposing new clause 6 is to propose requirements on the FPC to regularly publish external research into the level of systemic risk to the stability of the financial system in the UK. I note the points that the Minister has made on that. Furthermore, as we seek greater transparency, we have again sought publication of a record of the meetings of the Financial Policy Committee within a reasonable timeframe. I am delighted that the Minister has clarified that that is indeed the case, and that that takes place within six weeks. I am reassured by much of what she has said regarding the provisions of section 9W of the 1998 Act on research and surveys and the provisions of section 9U on the publication of that research. Given that, and given the comments made by the Minister, we will not press new clause 6.

John Mann: The shadow Minister is such a moderate these days. I am feeling nervous, because new clause 6 is an excellent amendment that I wholeheartedly endorse. If we look at the FPC's membership, they have huge experience of being in companies that have not paid a great deal of tax in the United Kingdom, so some expertise is brought to bear. The multinational structure of the UK economy, lauded as being the most open in the world, is also a potential systemic risk. The tax avoidance scandal demonstrates the scale of that potential systemic risk, not only in terms of the amount of money we are not getting in—that is an ongoing problem—but in terms of the structure of our economy.

For example, if some of the commentators are right about the response of capital to a British exit from the European Union, and if that coincided with a collapse in the euro, our economy would be vulnerable. The FPC needs the ability to work through the scenarios and the options and to see whether our structures are sufficiently good—I put it to the Minister that they are not and that we remain hugely vulnerable. That is one reason.

The second reason is that our housing market has a perverse structure that is worse than that of any other advanced economy. We have an absurdity that we have not been able to deal with, whereby there is huge housing price inflation in London and the south-east, yet the vast majority of houses we are building are in areas such as mine. They take a long time to sell because there is not a huge amount of demand for that new housing, but there is plenty of land and plenty of people willing to build housing, especially if the Government subsidise it. The Government are pressing for more and more housing, yet at the same time they face a systemic risk in the housing market. That is not a problem created by this Government; it goes back several generations. If the housing bubble were to burst in a range of different ways, that would be a fundamental problem.

The third systemic risk, which we saw in 2008, is the level of indebtedness. It was the American sub-prime market that led to the chain of events that caused the world financial crisis, not a specific collapse in this country, but we are hugely vulnerable. We, as a nation, are far too indebted. What is different now from any time in our history for both the corporate sector and individual households is that interest rates are at a record low. There is therefore a whole generation of people—two generations, in effect—whose expectations and economic behaviour is predicated on permanent low interest rates.

Commentators machinate—the Treasury Committee machinates at great length—about whether there will be a 0.25% increase in interest rates, yet we only need to go back 25 years and they were at 15%. That is part of the systemic risk. We therefore do not want to rely on the same old commentators—the OECD or the IMF—who got it wrong before 2008 and are using the same old paradigms.

The FPC should do precisely what the new clause suggests: ensure robustness in the British system. In a sense, that is the point of the FPC; otherwise, it has no point at all. What is proposed in the new clause is exactly what is needed. Indeed, we probably need more than that, but it is a good start. It will get minds concentrated on the scenarios and the options and, critically, whether the financial culture in this country's businesses and households is sufficiently understanding

[John Mann]

to deal with the shock to the system that could come and which, by definition, will be outside our national control. That seems to be the point.

I will end on this point. It is quite a feasible scenario that at 7 o'clock in the evening of 12 March, after the German regional elections, the German media will be announcing the end of Chancellor Merkel. It is also a feasible scenario that the main opposition party—Labour's sister party, the Social Democratic party—will come an unprecedented fourth. It is being seen as the most significant political day in 50 years in Germany, and it will have a huge immediate impact on the euro and the stability of the eurozone. We do not have an approach to dealing with that, because we presume that such major shocks to the system are not going to come. That is precisely the point of having the FPC and that is why the new clause is such a good one. We ought to be robust.

11.15 am

Harriett Baldwin: I would certainly be very concerned if the hon. Member for Leeds East were developing a reputation as a moderate, not least because that might cause him not to be put forward as a Labour candidate at any future election. That would be a very worrying development. My analysis of his political point of view is that no one in this country could describe him as a moderate. This may be the first occasion on which he has been described as such. "Trot" might have been a more appropriate description of some of his political views, but I digress in an entirely inappropriate way.

I want to respond to some of the points raised and indeed to the important speech made by the hon. Member for Bassetlaw about the fact that the UK is an open economy. Therefore, by its very nature, it is open to economic developments in the rest of the world. He highlighted three topics with which the Financial Policy Committee should rightly be concerned. The first was the importance to financial stability in this country of the UK Government being able to receive tax revenues in order to pay for public services. He will know that it is incredibly important in this regard that we work with other countries and, notably, the OECD on the base erosion and profit shifting work, which is an important matter, perhaps not so much for this Committee but for other Committees in this House. That is an incredibly important issue on which we work internationally.

I reassure the Committee that, in terms of the overall resilience of the UK banking sector today, compared with the resilience at the time of the last shock, it does appear to be increasingly resilient. We would like to put that on record. The aggregate capital ratio, the common equity tier 1 ratio, is currently 12% for the banking system as a whole, which is a full 3.7% higher just since the end of 2013. The major UK banks all came through their stress test with the FPC at the end of last year without being asked to raise more capital. The FPC concluded that the UK banking system would have the capacity to support lending to the real economy even in the context of a severe global economic slowdown triggered by a downturn in the emerging economies.

The hon. Member for Bassetlaw also mentioned the housing market. Again, I think that it would be really valuable for the Committee to put on the record that the Government have granted the FPC powers of direction regarding residential mortgages and are also consulting—I hope that Opposition Members will support this—on extending its remit to cover powers regarding buy-to-let mortgages as well. Those are important points.

The hon. Gentleman also mentioned the rise of private sector borrowing. On that point, we argue that progress has been made to improve the personal financial position of households in the UK. Household debt relative to income has fallen from 168% in 2008 to 142% at the last reading. That includes both mortgage and unsecured debt. The FPC does study these numbers very closely. It stated, the last time that it looked through them, that given the actions that it has taken household indebtedness currently does not pose an imminent threat to financial stability, not least because underwriting standards are currently more prudent than in the past. Of course, however, the FPC must and will continue to monitor the household sector and will take further action if necessary.

George Kerevan: I appreciate the Minister's overview of the financial markets and how stable they are. Obviously, she has not read the financial press this morning. The whole basis of the international bank resolution regime that we have brought in since 2008 is based on convertible bonds. The convertible bond market has gone berserk in the past two days. Constant default rates on commercial paper covering bonds have spiked by a whole number of points. Let me assure the Minister that the markets are not anywhere near as quiescent as she tells us.

Harriett Baldwin: Again, the hon. Gentleman puts words into my mouth that I did not utter. However, I did want to point out that the FPC looks at the financial sector's resilience. No one would deny that the markets are going through rough and troubled times, but the FPC's role is important and I hope he will agree that its powers to look at different aspects of the economy have improved the architecture of financial regulation since the last crisis. I highlight the way in which the Bank of England, as part of its monetary policy remit, has kept inflation as low as it has.

The hon. Member for Leeds East pointed to the "spaghetti" of the Bank's organisation. I agree that we need clarity to be able to tell our constituents about how the architecture works. I share that objective. The Bill improves the pasta-related shapes of financial architecture. I would argue that the current situation, with a subsidiary and so on, is more like spaghetti. When I was trying to think of an appropriate pasta-related analogy for what the Bill does in establishing new architecture that we can explain to our constituents in simple terms, I came up with the idea of three ravioli—independent, but, importantly, in the same bowl.

Question put and agreed to.

Clause 6 accordingly ordered to stand part of the Bill.

Clause 7

MONETARY POLICY COMMITTEE: MEMBERSHIP

Question proposed, That the clause stand part of the Bill.

Harriett Baldwin: With all this talk of food, I was hoping that we might break for lunch. I am not sure what time we will do that, but I will deal with clause 7, which I think will be quite brief. It makes the deputy governor for markets and banking an ex-officio member of the Monetary Policy Committee. Previously, the only ex-officio members of the committee were the Governor, the deputy governor for monetary policy and the deputy governor for financial stability.

As I set out in my remarks on clause 6, following the expansion of the Bank's responsibilities, the Government and the Bank made a number of new appointments, including the creation of the post of deputy governor for markets and banking. It is currently held by Dame Minouche Shafik and she sits on the MPC as one of the two members appointed by the Governor of the Bank of England after consultation with the Chancellor of the Exchequer. The clause formalises that arrangement and ensures that expertise for monetary policy operations is maintained on the committee.

The clause also reduces the number of members of the committee who may be appointed by the Governor of the Bank of England from two to one, ensuring that the committee's current balance is preserved. It provides that anyone appointed as a member of the committee by the Governor must carry out monetary policy analysis in the Bank and it gives that member the title of chief economist of the Bank.

In addition, the clause formalises existing practice in relation to conflicts of interest by introducing a statutory requirement for the Chancellor to take account of the interests of potential appointees in deciding whether they would be able to do the job. I do not think that the clause will be controversial.

Question put and agreed to.

Clause 7 accordingly ordered to stand part of the Bill.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o'clock.