

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT BANK OF ENGLAND AND FINANCIAL
SERVICES (CONSEQUENTIAL AMENDMENTS)
REGULATIONS 2017

Wednesday 18 January 2017

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Sunday 22 January 2017

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The Committee consisted of the following Members:

Chair: ROBERT FLELLO

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|---|--|
| † Alexander, Heidi (<i>Lewisham East</i>) (Lab) | † Mann, Scott (<i>North Cornwall</i>) (Con) |
| † Allan, Lucy (<i>Telford</i>) (Con) | † Mullin, Roger (<i>Kirkcaldy and Cowdenbeath</i>) (SNP) |
| † Ansell, Caroline (<i>Eastbourne</i>) (Con) | † Reynolds, Jonathan (<i>Stalybridge and Hyde</i>) (Lab/Co-op) |
| † Barclay, Stephen (<i>Lord Commissioner of Her Majesty's Treasury</i>) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Bingham, Andrew (<i>High Peak</i>) (Con) | † Stuart, Ms Gisela (<i>Birmingham, Edgbaston</i>) (Lab) |
| † Blackman, Kirsty (<i>Aberdeen North</i>) (SNP) | † Tracey, Craig (<i>North Warwickshire</i>) (Con) |
| † Dowden, Oliver (<i>Hertsmere</i>) (Con) | † Wood, Mike (<i>Dudley South</i>) (Con) |
| † Glen, John (<i>Salisbury</i>) (Con) | |
| † Jones, Gerald (<i>Merthyr Tydfil and Rhymney</i>) (Lab) | Kenneth Fox, <i>Committee Clerk</i> |
| † Jones, Susan Elan (<i>Clwyd South</i>) (Lab) | |
| † Kirby, Simon (<i>Economic Secretary to the Treasury</i>) | † attended the Committee |

Second Delegated Legislation Committee

Wednesday 18 January 2017

[ROBERT FLELLO *in the Chair*]

Draft Bank of England and Financial Services (Consequential Amendments) Regulations 2017

2.30 pm

The Economic Secretary to the Treasury (Simon Kirby): I beg to move,

That the Committee has considered the draft Bank of England and Financial Services (Consequential Amendments) Regulations 2017.

Good afternoon, Mr Ffello. It is a pleasure to serve under your chairmanship. This is a technical and, I hope, straightforward and non-controversial piece of legislation. It provides for ending Prudential Regulation Authority's status as a subsidiary of the Bank of England. It transfers the PRA's functions to the Bank and provides that, when acting as the PRA, the Bank's functions are to be exercised through a new Prudential Regulation Committee.

I do not want to detain hon. Members unnecessarily this afternoon. I am happy to answer questions on any specific technical point later.

2.31 pm

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): May I, too, say that it is a pleasure to see you in the Chair, Mr Ffello? As we have heard from the Minister, the regulations are purely consequential on the change of the Prudential Regulation Authority's status from a subsidiary to a committee of the Bank of England.

Hon. Members will be aware that the PRA was created by the Financial Services Act 2012, and it is responsible for promoting the safety and soundness of the firms it regulates. Only a few years later, sections 12—"Bank to act as Prudential Regulation Authority"—to 14 of the Bank of England and Financial Services Act 2016 and its relevant schedules demoted the PRA to the Prudential Regulation Committee. The Labour party voted against that Act on Third Reading because of concerns that it failed to appropriately increase the oversight, transparency and accountability of the Bank's work. In Committee in particular, Labour voted against the aforementioned section 12 owing to its downgrading of the PRA. Unfortunately, I therefore have to tell the Minister that we cannot support the regulations.

Before addressing the technical substance of the matter at hand, it is important to reflect on the fact that individuals sit at the heart of all the considerations we discuss at a Treasury level. Their lives and livelihoods can be significantly impacted by our decisions on these matters. Despite taking place nearly a decade ago, the 2008 economic crash will be fresh in the memory of those who lost their jobs and homes as a result. Those events nearly brought down the global financial system, and it was only due to taxpayer-funded bail-outs that it

was able to survive. What is more, it was that financial crisis that caused the deficit that the Government have relied on as their justification for making a series of political choices to cut public services, funding to local authorities and support for the most vulnerable, and to drive down the incomes of working people.

It is our responsibility as lawmakers to do everything in our power to ensure such events can never be repeated. Moreover, as the official Opposition, we are obliged to be honest and constructive in our scrutiny of legislation. It is in that fashion and for those reasons that we oppose the regulations. We fear that changing the Prudential Regulation Authority to the Prudential Regulation Committee signals less transparency over the Bank of England's role. Currently, the Prudential Regulation Authority is a separate corporate body and a distinct authority. It can be held separately liable and accountable for its actions and interactions. However, the Prudential Regulation Committee will be less independent, given the demotion of the authority, which currently has statutory powers to create a rulebook and to enforce its own regulations, to being a mere committee of the Bank of England.

Debates over the past few years have thrown up numerous contradictions and queries, and it is not clear to what extent those have been sufficiently resolved. It is difficult to understand how the changes contained in the regulations will make the regulator more competent and effective in carrying out its work. Our concern is that it will not, and that there is no evidence to demonstrate otherwise. Having set up a structure that remains relatively young, would it not be logical to let it work itself out and see what the issues are, rather than to tear it up so quickly?

Will the Minister say how the body can be both more integrated and remain independent? Have the Government mitigated the serious risk of oversight being impaired by a conflict of interest? Will the Minister clarify the safety mechanisms in place to prevent the Bank's main board from rationing resources to the proposed committee? Will he guarantee that the Prudential Regulation Committee can go public if it feels that it is not getting the support and resources it needs from the main Bank of England board?

We continue to argue for the retention of the Prudential Regulation Authority as a distinct regulatory authority, just as we continue to express concerns that the Government are failing to provide a proper framework for a banking system for the future. We need a healthy and effective banking sector that is appropriately regulated and serves the interests of our wider economy, by delivering the vital investment that our country needs for long-term economic growth. We know that people want assurances that we as a society and Parliament have learnt from the financial crisis, that we will improve transparency in banking regulation and banking practices and that the serious damage inflicted on people's livelihoods caused by the collapse in 2008 can never happen again. I therefore tell the Minister that it is our duty to vote against the regulations. We will divide the Committee.

2.35 pm

Roger Mullin (Kirkcaldy and Cowdenbeath) (SNP): It is a pleasure to serve under your chairmanship, Mr Ffello. There is one area to which I want to draw the

Minister's attention, to express why we have grave concerns about the regulations. It is that of limited liability partnerships. As he will be aware, the Government launched a review on Monday because of the extent of international criminality that has been able to take place under the previously existing regulatory system.

Nothing in the proposed changes will strengthen the capacity to protect against the kind of abuse that has taken place through not just Scottish limited partnerships, which have received a lot of publicity in the past year or so, but other limited liability partnerships. I can see nothing at all in the regulations that will allow for the proper regulation of an area that the Government have admitted is of major concern.

2.36 pm

Simon Kirby: I shall address the first comment made by the hon. Member for Stalybridge and Hyde about independence. The PRC will have clear statutory safeguards for its independence, including a majority of external members. He suggested that this change might be a downgrade. It is in fact the opposite—it is an upgrade that reinforces to Bank staff and the public to whom the Bank must be transparent and accountable and that the Bank is not simply an organisation dedicated to setting interest rates but one with equally important macro and microprudential responsibilities.

The hon. Gentleman mentioned that the Bank might ration resources. I hope to reassure him by saying that the use of the levy will continue to be limited to meeting the costs of the PRA's functions. The Bank of England and Financial Services Act 2016 requires the Bank's external auditor to state whether the Bank has complied with the requirements in the Financial Services and Markets Act 2000 in relation to the levy. The 2016 Act also requires the Bank to produce a separate statement of accounts for its PRA functions to ensure continued transparency in the use of the levy. It is interesting to

note that Andrew Bailey, then the PRA chief executive, speaking to the Treasury Committee said that there is no change in terms of robustness of the accountability for the use of the levy.

I thank the hon. Gentleman for reminding us of and repeating the arguments made during the primary legislation's progress through Parliament. I politely suggest that he is perhaps trying to shut the stable door after the horse has already bolted. This is a straightforward, technical arrangement that changes words in existing primary legislation that clarify references to the Bank and the PRA.

I note with interest the comments from the hon. Member for Kirkcaldy and Cowdenbeath. The changes are sensible. They are a final, legal tidying-up exercise to commence the provisions ending the PRA's subsidiary status. We plan to make the change on 1 March.

Question put.

The Committee divided: Ayes 10, Noes 8.

Division No. 1]

AYES

Allan, Lucy
Ansell, Caroline
Barclay, Stephen
Bingham, Andrew
Dowden, Oliver

Glen, John
Kirby, Simon
Mann, Scott
Tracey, Craig
Wood, Mike

NOES

Alexander, Heidi
Blackman, Kirsty
Jones, Gerald
Jones, Susan Elan

Mullin, Roger
Reynolds, Jonathan
Smith, Jeff
Stuart, rh Ms Gisela

Question accordingly agreed to.

2.40 pm

Committee rose.

