PARLIAMENTARY DEBATES

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Public Bill Committee

FINANCIAL SERVICES BILL

Fourth Sitting

Thursday 23 February 2012

(Afternoon)

CONTENTS

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Monday 27 February 2012

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 George Howarth, Mr Edward Leigh

† Bradley, Karen *(Staffordshire Moorlands)* (Con)
† Burt, Lorely *(Solihull)* (LD)
† Durkan, Mark *(Foyle)* (SDLP)
† Evans, Chris *(Islwyn)* (Lab/Co-op)
† Fovargue, Yvonne *(Makerfield)* (Lab)
† Garnier, Mark *(Wyre Forest)* (Con)
† Gilbert, Stephen *(St Austell and Newquay)* (LD)
† Gilmore, Sheila *(Edinburgh East)* (Lab)
† Hamilton, Fabian *(Leeds North East)* (Lab)
† Hancock, Matthew *(West Suffolk)* (Con)
† Hands, Greg *(Chelsea and Fulham)* (Con)
† Hoban, Mr Mark *(Financial Secretary to the Treasury)*
† Jamieson, Cathy *(Kilmarnock and Loudoun)* (Lab/Co-op)
† Leslie, Chris *(Nottingham East)* (Lab/Co-op)
† Norman, Jesse *(Hereford and South Herefordshire)* (Con)
† Pearce, Teresa *(Erith and Thamesmead)* (Lab)
† Rutley, David *(Macclesfield)* (Con)
† Sharma, Alok *(Reading West)* (Con)

James Rhys, *Committee Clerk*

† attended the Committee

Public Bill Committee

Thursday 23 February 2012

(Afternoon)

[Mr George Howarth *in the Chair*]

Financial Services Bill

Clause 3

Financial Stability Strategy and Financial Policy Committee

Amendment moved (this day): 5, in clause 3, page 3, line 34, after 'functions', insert

'having regard to the Government's growth, employment and other economic objectives'.—*(Chris Leslie.)*

1 pm

Chris Leslie (Nottingham East) (Lab/Co-op): Good afternoon, Mr Howarth, and, if it is in order, may I say to all those watching online—

The Chair: Order. No, it is not in order.

Chris Leslie: In that case, I retract that remark. I was just going to say what a pleasure it is to be back here in Committee.

In case any hon. Members do not recall my opening remarks of a few hours ago, I had just started to speak to amendment 5, and wanted to persuade the Minister to insert into proposed new section 9C of the Bank of England Act 1998, on the objectives of the Financial Policy Committee, a requirement for the FPC to exercise its functions

"having regard to the Government's growth, employment and other economic objectives".

This debate is surely—certainly for Opposition Members—one of the most important that we will have on the Bill in Committee. I think that I touched on the fact that under the 1998 Act the Monetary Policy Committee has an objective that is not dissimilar to the one in the amendment. Its objectives are, of course, to maintain price stability and, subject to that, to support the economic policy of Her Majesty's Government, including their objectives for growth and employment.

I have been quite generous in my drafting of the amendment, because the provision is about having regard not to

"growth, employment and other economic objectives"

but to

"the Government's growth, employment and other economic objectives".

There is a discussion to be had about the extent to which the Government's growth and employment objectives are discernible at all.

Mark Garnier (Wyre Forest) (Con): The key point is the reference to the Government's growth, employment and other economic objectives, which presupposes that the Government have got them right. I offer a purely hypothetical situation: let us imagine for a moment that a Chancellor or perhaps a Prime Minister began to believe his own hubris and thought he had brought an end to boom or bust—it would never happen, I am sure hon. Members would agree. However, that reminds us that Governments do not necessarily always get it right. There are some very intelligent people on the FPC, who make a contribution to government.

Chris Leslie: Indeed, that is why the MPC's objectives, and our amendment, are framed to require the committees to "have regard to", rather than strictly follow, the policy path of the Government of the day.

It is a well established aspect of legislation that even independent public bodies can retain their respect as independent bodies while simultaneously having regard to the Crown and the Government's relevant duties in Parliament. That is an important bit of connectivity. I realise that the Minister may feel that there would somehow be a breach of the Fareham doctrine of compartmentalisation; we will see whether that argument will be deployed again. I hope not.

However, it is important to say that even if the Government of the day pursue a growth strategy that results in negative growth, as is happening now—there was a debate on the issue in the other place the other day, and in the last quarter the figure was minus 0.2%—it is important that the Bank should be cognisant of and should have regard to what I hope would be, across all parties, a strategy to do something to boost prosperity and job creation in all corners of the country and across society. That, essentially, is the purpose of the amendment.

Paragraph 44 of the pre-legislative scrutiny Committee report states:

"The Government is right to require the FPC to consider the impact of its decisions on growth. But the Bill's current drafting is too strong and restrictive."

That is an interesting point.

The paragraph continues:

"The FPC is not authorised to take any actions to promote stability if it is likely to have a significant adverse effect on the financial sector's contribution to growth in the medium or long term. The Bill should be redrafted so that…the FPC"—

this is the crucial part—

"must have regard to the Government's growth and other economic objectives subject to meeting its primary responsibility of attaining financial stability."

I completely agree with that paragraph and commend the hon. Member for Hereford and South Herefordshire on his work in ensuring that that was the recommendation of the pre-legislative scrutiny Committee; he is entirely correct in that regard.

The important element brought out by the pre-legislative scrutiny Committee is the almost glass half full, glass half empty argument about the extent to which growth is taken into account by the FPC in its duties. Subsection (4) of proposed new section 9C states that the duty on the FPC does not

"require or authorise the Committee to exercise its functions in a way that would in its opinion be likely to have a significant adverse effect on the capacity of the financial sector to contribute to the growth of the UK economy in the medium or long term."

Under the Bill, the FPC has a view to contribute to stability, but it is not required or authorised to undertake functions that might adversely affect growth. At least that is something. It is an important backstop in the Bill, but it is quite a pessimistic and negative one.

Jesse Norman (Hereford and South Herefordshire) (Con): The hon. Gentleman has prayed in aid evidence that I apparently supported, in the Treasury Committee, the claim that he is making. Will he point us to that evidence, either in the testimony or elsewhere, as to my specific supposed involvement?

Chris Leslie: I apologise. I presumed that there had been consensus in the pre-legislative scrutiny Committee on the wording of that particular recommendation.

Jesse Norman: In other words, there is no specific evidence that I supported that particular point, although there might have been some consensus among the group.

Chris Leslie: I did not anticipate that I would need such evidence. Did the hon. Gentleman dissent from that particular recommendation?

Jesse Norman: I am happy to say that the Committee's report is a result of consensus among its members, but that does not mean that they necessarily agree on every aspect, or that they will necessarily register such disagreement if it exists.

Chris Leslie: My understanding of the concept of consensus is that people agree with the document. The hon. Gentleman was a member of the pre-legislative scrutiny Committee—[Hon. Members: "No."] My apologies. I withdraw entirely my appalling allegation.

Jesse Norman: May I ask the hon. Gentleman not only to apologise to the Committee, but to withdraw the entire line of argument?

Chris Leslie: It is a good try.

I apologise—I had assumed that the hon. Gentleman was a member of the pre-legislative scrutiny Committee. Perhaps we should have badges for Members who were or were not members of that Committee.

The Chair: Order. Having now established that the hon. Member for Hereford and South Herefordshire was not a member of that Committee, we should decline to go any further with that line of inquiry.

Chris Leslie: I take your guidance, Mr Howarth.

David Rutley: Will the hon. Gentleman give way?

Chris Leslie: Was the hon. Gentleman a member of the pre-legislative scrutiny Committee?

David Rutley: No.

Moving the argument on, the amendment talks about "other economic objectives". Having looked at other amendments, I see a clear desire by the Opposition to have greater clarity between the FPC, the MPC and other bodies. Will referring to other economic objectives not broaden the provision so widely as to cause confusion and conflict between the various bodies in the new structure?

Chris Leslie: That is a different point, and it is a fair point of debate. I apologise to the hon. Member for Hereford and South Herefordshire for traducing him by claiming that he had been a member of the pre-legislative scrutiny Committee. What an appalling allegation to have made about him. He is clearly busier than I thought.

The argument moves on, but it relates to the pre-legislative scrutiny Committee. My amendment takes its words entirely from the recommendations made by that Committee. Returning to the substance of the amendment, I was trying simply to advocate in this Committee a recommendation that had been made by the pre-legislative scrutiny Committee, whose job was to spend months and months pouring over evidence, and taking evidence from external organisations. I do not know whether the hon. Member for Wyre Forest was a member—I am confused about its membership—but I tried to put its consensual, cross-party conclusion in the form of an amendment in the hope that it would help to inform this Committee.

There is a disjoint between what went on in the pre-legislative scrutiny Committee and in this Committee. As I said when we debated the programme motion, it is a pity that the membership of the PLS Committee was not transferred adequately to this Committee. We must decide on the line-by-line content of the Bill, and it would be dreadful if all the PLS Committee's work were not brought to bear in our proceedings today.

Mark Garnier: For absolute clarity, and because my hon. Friend the Member for Hereford and South Herefordshire and I are members of the Treasury Select Committee, I want to explain where that Committee stands on the matter, although the hon. Gentleman will not be surprised to hear that it will not help his argument. Paragraph 138 of its 21st report says that this

"is something that we may wish to return to in a subsequent inquiry given the likely public debate about this important issue."

Chris Leslie: That is useful. The Treasury Select Committee was not, therefore, against the idea at least, which is one facet. Inspiration tells me that no member of this Committee was on the pre-legislative scrutiny Committee. That is genuinely a great pity, and a matter of regret on both sides. It is, therefore, doubly appropriate and incumbent on us not only to read its report—

The Financial Secretary to the Treasury (Mr Mark Hoban): And to know who was on it.

Chris Leslie: Indeed. The Minister was not a member, nor was I, but I have read its report. This Committee must endeavour at least to debate its recommendations, and to try to take on board its wisdom, otherwise it will believe that it was a waste of time, we will wonder what on earth it was up to, and that parliamentary process will be seen to be disjointed and appalling. Perhaps consideration should have been given to having Front-Bench representatives on that Committee, but I digress.

The pre-legislative scrutiny Committee recommended what is in the amendment, and that is a powerful reason for tabling it. We know that there are widespread concerns beyond those of that Committee that growth and employment objectives have not been adequately brought to bear in the framing of the FPC's objectives. I was

[Chris Leslie]

talking about the fact that the provision is drafted with a glass-half-empty approach. Simply having an obligation not to do things that adversely affect growth is not the same as having a requirement to have regard to a positive pro-job, pro-growth agenda that should be part and parcel of the FPC's consideration.

Jesse Norman: I am hesitant to stop the hon. Gentleman in the process of digging such a deep hole, but may I ask him about the substance of the point? Since much of the purpose of the FPC will be precisely to restrain and deflate asset bubbles before they become too advanced, would it not create a damaging conflict of objectives then to insert a growth objective into the FPC's remit, given the Government's incentives for growth now and in future?

Chris Leslie: The hon. Gentleman brings us to the central point in the debate. There is a fundamental question about whether it is the FPC's duty somehow to suppress or dampen down growth, credit supply and those elements that foster our prosperity. There is a difference, I would hope, between promulgating and promoting stability and the measures that we all surely support to maximise employment in society and the prospects of decent economic growth.

1.15 pm

Jesse Norman: The point is not merely growth at any price; it is sustainable growth, and it arises from an analysis of the last 13 years under the previous Government, during which time the regulatory system ignored that point and enormous asset bubbles were allowed to build up. I remind the Committee that the average bank leverage—its debt to equity ratio—was 20 times for 40 years until the year 2000. Between 2000 and 2008, according to the Independent Commission on Banking, it rose from 20 times to 50 times. That is the problem.

Chris Leslie: I do not disagree with much of the hon. Gentleman's intervention, but surely action on credit bubbles and over-leveraged banking is not incompatible with action to support economic growth and job creation. That is the key point. Credit bubbles and other risks to stability are duly to be tackled. That is properly the primary role of the Financial Policy Committee. The argument that the pre-legislative scrutiny Committee and I are making is that we also need the FPC to have regard to the fact that we need a growing economy. That was not the case in the last quarter. He might be content with that, but the Opposition are not.

The FPC must also tackle unemployment and help maximise employment. Unemployment is at a 17-year high. Youth unemployment is now at 22%. That is an absolutely disgraceful situation. Were we to legislate for a Financial Policy Committee that does not have regard to the need for jobs and growth, we would be absolutely derelict in our duty.

Stephen Gilbert (St Austell and Newquay) (LD): The hon. Gentleman just said that the FPC's primary duty should be stability, yet his amendment puts

"having regard to the Government's growth, employment and other economic objectives"

ahead of stability, and the FPC would simply have a view to contributing. Surely what is drafted and what he just said are not compatible.

Chris Leslie: The hon. Gentleman is misreading the amendment. It would make it the FPC's job to exercise its functions while having regard to growth as a background responsibility, but with a view to contributing to the achievement of the Bank's overall financial stability objective. The stability objective must be the driving force of the FPC's arrangement. I do not deny that at all; that is what we want. My point is that it is not incompatible with bearing in mind the positive impact of what the FPC does on growth and jobs.

It is not enough simply to say, "Don't do things that harm growth." I want an FPC that supports and works in tandem with other policies being pursued by Her Majesty's Treasury and others—if only we had a Treasury that pursued those policies—to support job creation and growth. I do not think that growth and credit bubbles are the same thing, and I am sure that Government Members do not disagree with that statement. If we get that point out of the way, we can talk about how the FPC works, but maybe I have not got that point out of the way.

Jesse Norman: I am sure that I speak for the entire Committee in longing for a moment in which we can get to the substance of the amendment. Let me also say how bored I am with the series of ad hominem remarks that attempt to associate me with the current growth and employment situation on the back of an analysis in the legislation about the growth experienced and asset bubbles endured by this country over the past 15 years. The two things are entirely separate; in my previous remarks I made an explicit distinction between sustainable growth and asset bubbles along the precise lines that the hon. Gentleman now acknowledges. Let us return to the issue at stake: why should the FPC be given a dual mandate when we know in advance that that has been the cause of credit creation, not only in this country but in the United States of America? That is the balance that the Committee is being asked to consider.

Chris Leslie: I think that we are considering the nub of the amendment and not skirting around it. This is not about a simple dual mandate, but about having regard to the policies of growth and employment that the Government should be pursuing. We should be careful about saying that those things are contradictory and that we will have two different institutions—Her Majesty's Government and the Bank of England—pulling in opposite directions. If the Bank of England does not have regard to the need to create jobs and growth, we may find that it pursues a strategy that runs contrary to the positive work that the Government should be doing to promote growth. The Bank might not be allowed adversely to shrink the economy by its actions, but that is not the same as wishing for a Financial Policy Committee that could contribute to some of the positive things that we want. As my hon. Friends will know, that is an important difference, perhaps between political parties, or perhaps just a different attitude in political outlooks.

Sheila Gilmore (Edinburgh East) (Lab): My hon. Friend might want to comment on the suggestion that having regard to issues of growth would necessarily put us back in an asset-bubble situation. The suggestion seems to be that if that were to happen, we would be back on a slippery slope.

Chris Leslie: That is the confusion the Chancellor is currently in. He has a do-nothing attitude when it comes to the role of public policy and how it can affect growth and jobs, and that is massively pertinent to the issue under discussion because it is a manifestation of the Government's lack of awareness. Possibly for ideological reasons, the Government do not believe that public policy can have a significant bearing on jobs and growth in the economy. If they believed that, they would be doing something about it. [Hon. Members: " Rubbish."] I seem to have touched a nerve on the Government Benches, but that is the way I see it. Neglecting to insert a responsibility on the Financial Policy Committee—which will be a massively powerful force on public policy in this country—to have regard to jobs and growth, risks leading to the curtailment of growth and employment activities.

Mark Garnier: Will the hon. Gentleman give way?

Chris Leslie: Perhaps the hon. Gentleman will allow me to expand the argument as I want to make some progress.

As I hope hon. Members will agree, some degree of risk taking is necessary in business, and even in lending. Risk is part and parcel of the way that business works, but it must be proportionate and properly offset, hedged, insured or guarded against, or protected by capital buffers in the right way. That is a difficult balance to strike. I accept that it is not easy, but if we take risk aversion to the extent of preventing lending and so on, we do so at our peril because the pendulum would swing from one extent to the other. We need a healthy balance, which is all that this amendment seeks to achieve.

Mark Garnier: One of the big problems that we have identified in the Treasury Committee, going back over the many, many months that we have been looking at, is that a situation may arise in which the FPC and the Government are diametrically opposed to each other. To repeat an expression that has been used on many occasions, the whole point is that the FPC is there to take away the punch bowl when the party is really getting under way. I hesitate to cast aspersions on any Government going into a general election, but there is nothing better for a general election than a monumental property boom, where people can go out and borrow against the increasing equity in their houses at a time when that is absolutely the wrong thing to do. As my hon. Friend the Member for Hereford and South Herefordshire suggested, in such a situation an election result is fuelled by a colossal bubble, which should not be there and which should have the heat taken out of it.

The Chair: Order. Before Mr Leslie responds to that intervention, I remind the Committee, first, that although I stipulated on Tuesday that interventions should be brief, some of them are turning into mini speeches. Secondly, although it is perfectly legitimate, given the wording of the amendment, to mention things such as growth, stability and employment, it is not permissible to get into a general debate about policy on any one of those subjects. As far as those subjects relate to the amendment, that is fine, but once it becomes a general debate about those subjects the Committee must be mindful of the fact that it is straying rather a long way from the amendment.

Chris Leslie: You are entirely right, Mr Howarth, as ever. It would be wrong of us simply to talk about the impact of fiscal policy on growth and jobs. We are talking about the role of the FPC on jobs and growth, which is one of the key issues at the heart of the Bill. If our constituents care about the Bill at all, they will care about the impact that it will have on their lives.

The hon. Member for Wyre Forest is right to say that credit arrangements that are dangerous in the long term but may be sweet and satisfying in the short term have a potential heady allure, and I agree that the FPC must attend to such things. I do not argue with that; my argument is that the FPC needs to bear in mind that any action it takes should, as far as possible, be in alignment with the growth and jobs objectives of Her Majesty's Government, notwithstanding the FPC's primary responsibility on stability. If it does not, there is a risk that it may interpret its mandate as consistently to act as a brake on the economy and to act in a risk-averse way, no matter to what extent risks are proportionate, insured against or hedged against. That is the Opposition's concern about the FPC.

Hon. Members may think that I am talking about a small matter, but these are incredibly big issues. We are creating an important and powerful institution, and it is vital that we get it right. The supply of credit in our economy must be maintained, but at a proportionate and appropriate level that supports jobs and growth. I do not think that is a controversial statement; I hope it is something with which both sides of the Committee agree. Arguments have even been made for credit to be supplied counter-cyclically when times are difficult. *[Interruption.]* There is a bit of disagreement in the Committee about that, but I am trying to develop my thesis. My point is that the FPC needs to bear in mind what is happening in the outside economy and to recognise that if it views its entire job as suppressing the supply of credit, rounding down risks no matter how proportionate they are, there will not only be a risk to economic growth, which is partially captured in the standing text, but a failure to support efforts to create jobs and growth. For example, if fiscal policy boosted job creation with the future jobs fund or whatever and took a positive step in one respect, but the Financial Policy Committee took an equal and opposite step with a macro-prudential tool or whatever, in terms of the supply of credit in the economy or whatever, we would be back to square one.

I am genuinely trying not to make a party political point, but we must feel some concern. The difficulty in Committee is that we tend to divide on a party basis, which is why I wanted to bring this issue from the pre-legislative scrutiny Committee.

1.30 pm

Teresa Pearce (Erith and Thamesmead) (Lab): When my hon. Friend tabled his amendment, did he have in mind the Federal Reserve Act, which states that the board of governors and the Federal Open Market Committee should

"promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates"?

Chris Leslie: Absolutely. That point is very relevant. The provision relates to monetary policy objectives, as our own MPC objectives have regard to growth and employment goals. If, however, employment as a guiding force is good enough for the Federal Reserve of the United States, it is not so outrageous to want it for our Bank of England.

Fabian Hamilton (Leeds North East) (Lab): Given the two arguments—one in favour of the FPC being cautious and holding back excessive lending, the other about having regard to jobs and growth—the question is about the balance. The amendment is about balancing jobs and growth against the caution that must be rightly exercised by the Bank. Does my hon. Friend agree?

Chris Leslie: Absolutely. In trying to achieve that balance, we took the words from the pre-legislative scrutiny Committee and offered them as an amendment to the Bill. If we were being partisan, we might have gone for stronger and more active terminology, but we thought that this would be the best way to proceed.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): Does my hon. Friend agree that we have framed the amendment to be consistent not only with what was proposed in pre-legislative scrutiny but with the points made by the CBI and the British Bankers Association? It is not inconsistent to have financial stability at the same time as promoting medium to long-term growth.

Chris Leslie: My hon. Friend helpfully moves the debate on, because I was coming to the views of such external organisations. They have looked not only at how the Bill is currently phrased but at the amendment. The CBI parliamentary briefing of 6 February stated that "the new regulatory authorities" should

"have a specific objective to…support…economic growth."

The CBI also calls for a "proactive focus". Those are the points that we are making. The amendment is not a Labour party initiative; the CBI is calling for that change.

The BBA, some Government Members might think, is not always in synergy with the views of the British Labour party, but on this occasion we agree. The BBA, in its evidence to the Treasury Committee, stated:

"We are concerned that the potential socio-economic effect of the application of macro-prudential tools has not been fully appreciated and accordingly believe that the objective, governance and accountability mechanisms should be further reviewed in this light. To begin with, it is clear that the application of these measures have the potential to have a significant effect on economic growth."

The Chancellor himself spoke about how the "stability of the graveyard" would not be desirable, and we must bear in mind his occasional and rare words of wisdom.

It is also important to look at other evidence in support of the amendment. In oral evidence given to the pre-legislative scrutiny Committee, the chief executive of HSBC, Stuart Gulliver, warned:

"You could see a situation where everything has been secured to such an extent that there is no risk of a failure but there is no credit going into the economy either."

In its briefing for the Committee, the London stock exchange stated:

"Financial services regulators should have regard for the impact of regulations on UK jobs and growth."

Our point is about that asymmetry in the Bill, and the lack of a positive focus on growth. The BBA, the CBI and the London stock exchange—that is pretty strong evidence. Furthermore, all members of the Committee have received a letter from Barclays bank—my own bank, as it happens, and a significant player in the economy. It stated:

"However, we believe that the legislation would benefit from amendment in certain crucial areas. Most importantly, we believe that the Bank/Financial Policy Committee should be given a proactive duty to consider growth, and not simply a reactive 'brake', as is currently included in the FPC's objectives…We welcome amendment 5, tabled by Chris Leslie MP, which would ensure that the FPC had regard for growth. This also reflects the Joint Committee's recommendation, and so does not appear to be an issue split along party lines."

Hear, hear to that. It continues:

"As we are currently witnessing with the MPC's actions on inflation and interest rate decisions, there is a clear, proactive consideration of the potential economic implications of taking action to reduce inflation."

That is already happening in the work of the MPC. The letter continues:

"There should be exactly the same level of consideration applied when the FPC considers macro-prudential measures. The current reactive safeguards and the FPC's objectives 9C(4) within clause 3 is a useful brake, but it will not go far enough. There may be times when difficult decisions are taken by the FPC to ensure there is stability in the system, but it is vital that the wider economic context is a proactive part of this decision making process. It should be noted, for example, that nearly all the FPC's possible macro-prudential tools, that the Bank has recently been consulting on, would have some level of impact on credit supply."

It goes on to say: "Please support amendment 5."

Given the amount of external evidence available, we want to make the case for the FPC to have regard to this issue because it is an important policy matter. Our constituents expect us to create an institution that has an eye to their experiences in the real economy. People are already suffering significantly in a number of different ways given the lack of focus on growth and employment, and it is the duty of the Committee to create an institution that will have regard to their lives, and to jobs and growth.

Matthew Hancock (West Suffolk) (Con): I will speak briefly on this subject. I did not intend to speak, but the rather long speech from the Front-Bench Opposition spokesman has encouraged me. I do not know whether he is trying to talk out the Bill, although we agreed on the timetable at the start of this process. The hon. Gentleman's remarks inspired me to make a short intervention, not because of the detail of the amendment —to which I will limit my remarks—but because of the understanding that his speech displayed.

Setting aside the inaccurate personal slurs that were thrown across the Committee against my hon. Friend the Member for Hereford and South Herefordshire, the speech contained a key element of misunderstanding, namely that the whole point of the Financial Policy Committee is to ensure that balance sheets are managed in a sustainable way. The removal of that tool from the authorities under the Bank of England Act 1998 was a significant reason why we had one of the largest banking booms and the largest banking failure in the history of the world.

Under the structure set out in the Bill, the FPC will ensure sustainable long-term balance sheets and produce reports every six months, while the MPC will manage short-term fluctuations in demand. That is why it is appropriate for the MPC's remit to be written as it is, but for the FPC to have the symmetrical role of ensuring financial stability and the sustainability of the financial system, rather than inserting an asymmetric amendment. The effect of the amendment would be a push for higher growth in the short term rather than looking to long-term sustainable growth. Exactly such a dash for unsustainable, boom-driven, debt-driven growth caused such misery under the financial regulation system that this Bill will replace, which is why all parts of the House agree that we need an FPC.

Chris Leslie: There is certainly no dash for growth, or even crawl for growth, taking place under the Government. What did the Chancellor mean when he said that we need to be careful of the "stability of the graveyard"?

Matthew Hancock: Precisely that we need to make sure that in allowing for active monetary policy by having a credible fiscal policy and a sustainable long-term financial policy, we can manage the economy in a way that does not lead to unsustainable short-term, debt-driven growth that causes great misery. In a telling intervention, the hon. Member for Erith and Thamesmead pointed out that one of the objectives of the Federal Open Market Committee relates to growth. That is precisely because it is the monetary committee in the United States, and the monetary policy committee in the UK has a similar objective.

Of course, we need to make sure that there is sustainable growth, which there would not be if we abandoned the fiscal credibility that the Government have won through their actions. The assumption that financial policy and monetary policy are somehow separable, as opposed to the need for a sustainable financial system through which monetary policy operates, is a key insight in understanding why we are going ahead with these plans.

Jesse Norman: I am loth to interrupt a speech that is so powerful and to the point. Does my hon. Friend share my view that all the incentives on Government normally, in boom times or in bust, are pro-growth? Whichever party is in power, those incentives tend to be pro-growth. The effect of that must be, therefore, that there is balance in the system.

Matthew Hancock: My hon. Friend invites me to go through the time-consistency economic literature that has built up since the famous papers in 1979 and 1983 by Barro and Gordon, but I will not detain the Committee with the history of the argument. Suffice it to say that one of the crucial elements, and the whole point of the Financial Policy Committee, is to ensure that we have a long-term, sustainable financial system that does not give us the biggest boom and bust in history, and we have the MPC that looks towards inflation with regard to growth, employment and other economic objectives. This an appropriate set-up, as opposed to that favoured by the Opposition, in which there is a muddle of objectives and the building up of a bubble, as there was before.

Mark Durkan (Foyle) (SDLP): Should it have no regard to any Government objective? As the Bill stands at the moment, it is under no onus to have regard to any objective.

1.45 pm

Matthew Hancock: No, indeed not. As Barclays pointed out, there are other provisions elsewhere in the Bill to ensure that the FPC has broad regard to what is happening in the economy so that we can have a sustainable financial system. I am sure that the Minister's argument will point to those provisions in more detail—thank goodness for that. The big-picture point is that the MPC meets monthly to manage short-term demand, and the FPC is there to ensure a sustainable financial system, not one that allows the biggest ever boom and the biggest ever bust.

Sheila Gilmore: I am disappointed by the lack of ambition and confidence that Government Members seem to be showing on this subject. Apparently, they cannot envisage a situation in which the issues can be balanced. It is a pity that in this field of politics, as in others, there is a tendency to jump from one policy extreme to another.

Just because for some time, even on a local and individual basis, credit was harmfully flexible and encouraged, we are not therefore so incapable of managing matters that we must run to the opposite side of the spectrum. It is unfortunate, and we are seeing the practical effects in our communities. Numerous small and medium-sized businesses are finding it difficult to borrow money for investment, because they are now being faced with a different set of bank policies. Although some of the previous investment decisions were not entirely wise, that does not mean that we must now say, "No, sorry, we can't do this."

The property market is in a similar situation. Many people find it baffling that not very long ago, they were being encouraged to take out unsustainable loans for house purchases, which contributed massively to higher house prices, pushing prices up so that people did not get the asset that they thought they would get. Now, however, a lot of people are not even able to buy homes. They cannot even get on the housing ladder. Some who could even repay the mortgage cannot buy a home, due to the determination to be cautious about deposits. Ironically, people are paying high private rents, and are therefore unable to save for deposits. The rule on deposits has gone from, "No, you don't have to have any," to "Actually, we want 30% or 40% off you." For a lot of people, that is simply impossible to achieve.

At a local level, that is what being overly prudent and cautious does to our economy, and it is having harmful economic effects. That is the danger of suggesting a concentration on financial stability to the exclusion of all other matters. It ought to be possible for the Financial Policy Committee to consider the issues, balance them and have regard to other issues that are hugely important to our country's economy, people's futures and jobs, but including a provision that imposes such a narrow focus risks damaging our economy. It is unnecessary. The people on the committee—we have discussed who they will be and the experience required—are, I submit, perfectly capable of achieving balance. To suggest that

[Sheila Gilmore]

if they even started to have regard to some other objectives, we would be back in a bubble, is to paint an exaggerated and wrong picture. Far from the amendment leading to harm, harm will be caused if such matters are not properly balanced.

Chris Evans (Islwyn) (Lab/Co-op): I feel a bit better than I did two days ago, so I can speak for longer, although I do not know whether that will please Government Members. To Opposition Members watching this debate, it seems as though Government Members have a feeling of doom and gloom: that just mentioning economic growth or jobs will suddenly create a boom and bust that is much worse than any in the past. I agree with my hon. Friend the Member for Nottingham East that the FPC will be a very powerful institution, in that its primary objective will be to maintain financial stability.

I have a bit of trouble with the meaning of financial stability, which I hope the Minister will explain. How do we measure it? We can measure the stability of monetary policy, because we have the inflation target and if inflation goes above that target the Governor has to write to the Chancellor. We do not have such a simple mechanism to measure whether we are financially stable. Another issue is that the FPC will have massive powers. Its macro-prudential tools will have a huge impact on the rest of the economy. It will make recommendations that will be carried out by the Prudential Regulation Authority and the Financial Conduct Authority, and its actions will have serious consequences for the economy.

The financial services industry has been heavily knocked—I come from that background, and I have friends who are still employed in it—but we must realise that, even though we talk about manufacturing and the need to rebalance the economy, the financial sector employs thousands and thousands of people in this country. We must remember that if one bank fails—if a firm does something wrong, and action is taken against it and it fails—that will affect jobs, growth and the communities that we represent. It is important to remember that when a company fails, jobs will go. If actions taken by the FPC affect jobs or such actions eventually lead to firms closing down, its remit should include other objectives.

The MPC sets interest rates, but it does not do so in a bubble or a microcosm; it also has to consider wider objectives about jobs and growth. I agree with Government Members when they say that no Government come to power hoping that the economy will fail or that it will not grow. The real problem, however, is that the FPC and the MPC will have to interact. At least three Bank officials will be members of both committees. As members of the MPC, they will set interest rates with their thoughts on jobs and growth, but they will also be members of a committee that is not required to think in that way.

Finally, in the drive for price stability, we can achieve that without directly affecting output, production, growth or jobs. However, in the drive for financial stability—this is the crux of the problem—we might at times marginalise policy objectives such as jobs and growth. When the Minister responds, I would like to understand from him how he intends to square that circle. How do we drive for financial stability without affecting those very important areas of the economy?

Fabian Hamilton: In the spirit of cross-party harmony in the Committee, let me reflect some of my hon. Friend's comments. I commend a lot of what the Government are trying to do in bringing stability to our economy and ensuring that there is a stable background for business. Having said that, for many years before I became a Member of this House I ran a business, which was not always wholly successful but I made a living and I employed people. As we know, the basis of our economy is our small to medium-sized enterprises, which employ 10 people or fewer and grow to become bigger medium-sized and large businesses; they are the most important employers. My former business partner feels that the current environment is not conducive to helping his business grow above its current eight employees in the city of Leeds, and I agree with him. We need such businesses to grow, however, in order to provide future jobs for the pool of young people who are currently outside employment, education or training.

My worry about the Bill, good as it is in so many respects, is that there is not enough emphasis in the new, restructured Bank of England on ensuring the creation of an environment where money can be lent prudentially and sensibly to businesses such as my former business—still run by my former partner in Leeds—and to the thousands of similar businesses throughout Great Britain. It worries me that we have not got the balance quite right. The amendment will provide that balance and ensure that there is emphasis on the growth of small business as well as on stability—stability, however, without stagnation.

My only other comment is that housing is such an important issue. I do not know about other hon. Members on the Committee, but housing—social housing and people having problems with mortgages—is now one of my biggest surgery case loads.

The Chair: Order. I am sure that the hon. Gentleman will try to find a way to relate that topic to the amendment.

Fabian Hamilton: I am trying to do so, Mr Howarth. Thank you for the reminder to stay on that narrow path. If the amendment is agreed to in a spirit of cross-party collaboration, to make the Bill better and to encourage growth and jobs in the economy, I wonder whether the restructured Bank of England and the Financial Policy Committee will be able to make any impression on banks' ability to offer people mortgages, which the hon. Member for Edinburgh East spoke about earlier.

Mark Durkan: As hon. Members on both sides of the Committee have already mentioned, the Monetary Policy Committee is under a statutory obligation to have regard to a range of Government objectives. In my mind, the fact that the FPC does not have to have regard to any Government objective creates an imbalance in the Bill. That is why I support this amendment, which at least requires the FPC to have regard to Government economic objectives.

Matthew Hancock: Is not the point of the FPC the ability to have symmetrical anti-cyclical policy in both directions? Would the amendment not introduce an asymmetry in terms of the promotion of growth, as my hon. Friend the Member for Hereford and South Herefordshire pointed out?

Mark Durkan: I will come to the hon. Gentleman's point. So far I have made the point that the omission in the Bill is the lack of a requirement for the FPC to have any regard to any Government objective, whether it be an overall economic or strategic objective, long term or short term. There is absolutely no reference to it. It seems strange that this sub-committee of the court of the Bank of England has apparently been told that it can completely disregard Government economic objectives, or that it has no duty to have regard to them.

2 pm

However, on the next page, the Bill provides that the Treasury may communicate with the FPC to tell it to do particular things in relation to its objectives, how it should interpret its objectives or that it should take particular matters into account. The hon. Members for West Suffolk and for Hereford and South Herefordshire expressed the wish to avoid subjecting the FPC to the short-term, venal, political motives of a Government, but those very concerns are refuted by the provisions in proposed new section 9D. Essentially, the Treasury is given potential override and direction rules in relation to the FPC.

Hon. Members have discussed how Governments have abused those positions in the past in relation to electoral agendas and so on, but the proposed new section is open to such abuse. The amendment would provide a more measured way of ensuring that the FPC's judgment and clear objectives on stability would be trusted to take due account of measures rather than relying on communications issued from the Treasury.

Members have said that although some economic areas are specified in relation to the MPC's remit, they should not all be repeated in relation to the FPC. I take that point. If we specify that the FPC should have regard to growth, employment and other economic objectives, it and the MPC might make conflicting judgments on them, which would create difficulties. I am not trying to make a party political point, saying that Government Members are not interested in growth or employment. However, their argument might have been more valid had they said that the amendment would be better if it did not refer specifically to growth or employment, because those may be more short-term policy issues, but that it is right to propose proper consideration of economic objectives.

Mark Garnier: My objection is the word "Government's" in the amendment, which would make the FPC an agent of the Government in promoting their agenda. The intention behind introducing the FPC is that it will not be a Government agent. Under proposed new section 9D(3)(c), the FPC may respond to a Treasury recommendation by stating,

"whether or not the recommendation relates to immediate action, the Committee's reasons for not intending to act in accordance with it."

The FPC will have an opportunity to say that it does not agree with a Treasury recommendation, so it will be independent. If it must have a Government element, it will become an agency of the Government.

Mark Durkan: The independent Committee can arrive at an independent judgment after having regard to the Government's objectives. Remember that under proposed new section 9D, the Treasury will ask the FPC to have regard to particular matters. The FPC can do so and come up with a different answer from that which the Treasury wants. We would simply front-load regard earlier in the process. Surely it is better to trust the FPC to have regard to known Government economic objectives rather than ambush it with missives from the Treasury.

Stephen Gilbert: What the hon. Gentleman says now is entirely in contrast with what he said a few moments ago. Does he accept that proposed new section 9D(3)(c) gives the FPC independence from Government?

Mark Durkan: Yes, and I am not opposed to that. We are not saying in the amendment that the FPC should be bound by short-term or long-term Government economic objectives, but that it should have regard to them in the context of contributing to the Bank's achieving the financial stability objective. Perhaps the amendment specifies and colours in, with reference to growth and employment, to a degree that some hon. Members do not want. However, in trying to resist those specifics, Government Members are making the mistake of resisting the obvious requirement that the Committee should and could comfortably be expected to have regard to the Government's overall economic objectives, which I assume would include long-term economic ones.

By relying on what is over the page, including 9D(3)(c), hon. Members are relying on a situation where it will be up to the Treasury to send signals and messages to the committee telling it how to interpret the objective itself, but also telling it other things it has to have regard to in discharging its duty. Surely we can foresee a committee that can be appointed that will not have to get those sorts of whipping instructions from the Treasury and will not then have to go through the bother of sending messages back to the Treasury explaining why it has come to a different conclusion than was suggested to it.

Such communications can be provided for but it should not be the only means by which statute can see that the FPC will have due regard to overall Government policy. It makes sense that it would. It seems strange that one sub-committee of the court of the Bank of England has regard to specific aspects of Government policy and another one does not have to any regard to any aspect of Government policy until the Treasury writes it a letter. It seems rather odd. People may not agree with this amendment, but some amendment is needed here. The Minister and his colleagues, perhaps in another place, will have to come back with something that balances this to ensure that it has regard to Government economic objectives and perhaps, rather than just saying with a view to contributing to the achievement of the financial stability objective, making it a particular or primary view to do so.

Mr Hoban: It has been an interesting debate. As the hon. Member for Nottingham East said at the outset of his speech at about 10.20 this morning, it is quite a key part of the Bill. It addresses important issues. At some points the debate has been slightly surreal. It has not focused on what is in the Bill and what we are trying to focus on. Let me spend a little time explaining what we are seeking to achieve here and why I think that those who believe the objective set for the FPC is weaker than that for the MPC are wrong.

[Mr Hoban]

The Government are clear that the FPC's primary aim should be to make the financial system safer and more sustainable by preventing the unsustainable build-up of risk or making the system more resilient to adverse shocks and contagion effects. I have heard the arguments from Members about changes to the FPC's objectives and I have some sympathy but I should like to explain why I think the paragraph on the FPC's objective is correct. We need to bear in mind that one of the overriding objectives of our reform is to create specialised bodies with focused objectives.

The approach, which has been widely supported, allows each body to concentrate on the small number of areas where it has the greatest expertise. It is not asking it to do lots of different things of which it might achieve none. The body we are seeking to replace—the FSA—provides a clear example of the danger of asking a single institution to balance a series of equally weighted and very different roles and the diffusion of focus that can result.

I am wary of diluting the FPC's focus and role by asking it to seek to promote other public policy aims such as economic growth at the same time as pursuing financial stability. It is for this reason that the Government feel the FPC should be asked to focus on a single primary objective of financial stability. However, we agree that the FPC's pursuit of stability should not be completely unfettered. As the Chancellor said previously and as Members have quoted, we do not seek the "stability of the graveyard". In other words, the FPC should not be able to pursue stability to the point where the financial sector can no longer support the real economy.

So if the Bill did not include the proposed new section 9C(4), hon. Members would have a point to make. But that subsection is very powerful in what it states. It requires the FPC to consider the potential adverse effect of its measures on the growth of the UK economy in the medium to long term, thus acting as a brake on the stability of the graveyard. Hon. Members should recognise the context.

It is a question of balance. On one hand, costs imposed by intrusive regulation may restrict the ability of the financial sector as a whole to support economic growth by providing credit and other services. On the other, as we have seen, an under-regulated, unstable financial sector can have devastating effects on the economy by fuelling unsustainable bubbles and causing disorderly firm failure.

That has been our experience in recent years. Imbalances have built up in the financial sector without any analysis or action on the growth of credit in the economy, leading to an unsustainable, debt-fuelled boom. When such bubbles burst, it is left to taxpayers to deal with the consequences, not just in terms of support for failed banks but in terms of the economic cost. I strongly believe that a stable and sustainable financial sector, to pick up the point made by the hon. Member for Islwyn, can and will create stable and sustainable growth, not just by creating jobs within the sector but by supporting the wider economy. Proposed new section 9C(4) gives to the debate that sense of balance and some of the symmetry needed.

Coupled with that, on page 5—we are making progress through the Bill—proposed new section 9E(3)(a) deals with the duty of proportionality. The FPC's actions should be proportionate to the risks that it is tackling. Again, we are trying to avoid the stability of the graveyard, in which the system is so stable that nothing can happen. There should be proportionality in the work of the FPC. I think that the measure strikes the right balance.

On the MPC, there was a sense in the debate that price stability and the MPC's growth and employment objectives are equal and the same, but they are not. We know that monetary stability is the key role of the MPC. To be candid, the MPC can take decisions that could affect the economy adversely. It can take decisions to raise interest rates, which could have an impact on unemployment and growth. However, let us return to proposed new section 9C(4), which says that the FPC should not

"exercise its functions in a way that would…have a significant adverse effect on the capacity of the financial sector to contribute to the growth of the UK economy in the medium or long term."

That is a much tougher brake on the work of the FPC than the equivalent provision in the legislation on the MPC. It recognises that price stability is the highest priority. Here, we are saying that too much financial stability can be as bad as too little. A much more nuanced argument is being made than the hon. Gentleman seems to think, but the hon. Member for Foyle is keen to intervene.

Mark Durkan: I appreciate that the Minister was trying to speak in shorthand about proposed new section 9C(4), but he left out the key words

"in its opinion be likely to".

That is a key difference. The safeguard in that provision is not as absolute as he stresses; it is the opinion of the committee.

Mr Hoban: The committee must exercise its judgment. We are asking its members to exercise their judgment about how they respond to such matters, in the same way that we are asking members of the MPC to exercise their judgment about what they believe is the appropriate level of interest rates to achieve their price stability objective. Given the respective roles and responsibilities of the MPC and the FPC and the checks on them, I contend that the way we have introduced an element of symmetry in 9C(4) is a more robust check than that in place for the MPC.

Let me deal with a couple of the arguments that the hon. Member for Nottingham East made. As well as misunderstanding the membership of the pre-legislative scrutiny Committee, he also misunderstood its conclusions. It was asking for something that goes beyond his amendment. It was asking to take out 9C(4) and simply have "have regard to", and his amendment would not have the effect that it was looking for. He prayed in aid the CBI, which actually wanted to go further; it wanted the FPC to have a positive duty to promote growth—an argument that the pre-legislative scrutiny Committee rejected.

2.15 pm

Chris Leslie: Will the hon. Gentleman give way?

Mr Hoban: He can dig himself out of that hole.

Chris Leslie: No, I was simply seeking an opportunity to meet halfway and, rather than merely taking an amendment from an external body, to find an opening to see whether, although the Government are clearly rigid on this, we could at least preserve the relatively positive drafting of some parts of the Bill but enhance it with a duty to "have regard to jobs and growth". Surely the Minister can take that olive branch in the spirit in which it is offered.

Mr Hoban: I am not sure whether that is an olive branch or an attempt to pull out of the hole that the hon. Gentleman has dug, but I note his point.

Whether we address the issue through the hon. Gentleman's amendment or focus on the rigorous test in proposed new section 9C(4), the reality is that it is not an asymmetric objective. Financial stability should not come at any price and we should recognise the impact that it can have on the economy.

Let us be clear: we want to be able to move to a model in which the economy is more stable, more sustainable and does not have some of the weaknesses that we saw in the run-up to the financial crisis, when people might have argued that there was financial stability, but in reality we were blowing up a huge credit bubble, which led to huge economic costs to the wider economy when it burst.

The FPC is an opportunity to move away from that model. It is not only about the level of credit; it will be interested in other things that will help to protect, promote and enhance financial stability, but it needs to have regard to the adverse impacts there could be on the economy. Let us not forget that the macro-prudential tools it will use will go through a consultation process and be approved by both Houses. We will ensure that we think very carefully through the impact on the wider economy, and a policy document on the use of the tools will be in place to build in some of the concerns we have about the actions that the FPC can take.

Matthew Hancock: The Minister puts forward a powerful argument. Are not the words "medium" to "long term" in proposed new section 9C(4) also crucial? It is the role of the MPC to manage the economy month to month, whereas the macro-prudential tools for counter-cyclical financial policy that he talked about are for the medium and long-term management of a sustainable financial system.

Mr Hoban: My hon. Friend makes an important point. Another important point to think about is that some of the changes that the FPC will make will not be instantaneously clear. Some of the levers that it can pull could have a delayed impact. There is a requirement to look beyond the next few weeks or months and think about the long term, not only the short term.

The hon. Member for Foyle raised the point about Treasury direction, but I think that my hon. Friend the Member for St Austell and Newquay responded to that by demonstrating that there is a "comply or explain" mechanism. There was an appetite in the responses to the consultation for the Treasury to be able, if it felt inclined, to make recommendations to the FPC, while recognising that the FPC, because it is independent, has the right to ignore them—but it must explain why. "Comply or explain" appears frequently, and it is an important balancing mechanism to have in place.

Mark Durkan: I fully understand. My point is that the only way in which the committee is currently able to be informed of Government objectives is by such a missive; if we make some provision in statute, the committee will inform itself of Government economic objectives.

Mr Hoban: I take the point, but, going back to subsection (4), although our means may vary, whoever is in government is committed to medium to long-term economic growth. It is fairly apparent that what we are talking about is the Treasury perhaps going into more detail about a concern that it would like the FPC to address.

Chris Leslie: This is pertinent to the point raised by the Minister's exchange with my hon. Friend the Member for Foyle. If the Minister would at least make this concession, we might be able to make some progress towards being on the same set of pages. Will he at least commit to using the provision set out in proposed new section 9D(1)(a), which allows the Treasury to make a recommendation to the FPC on other financial stability objectives? Will the Treasury ask the FPC to have regard to the Government's jobs and growth objectives? Surely writing that as a recommendation is not asking a massive amount, is it?

Mr Hoban: I know the hon. Gentleman is keen to extract a concession from this debate, but he needs to go back to proposed new section 9C(4), which is a powerful statement of the Government's expectation of the FPC. Subsection (4) states that the FPC's actions should not have

"a significant adverse effect on the capacity of the financial sector to contribute to…growth".

That is a clear statement of the role we expect the FPC to—*[Interruption.]* As I said a few moments ago, all Governments, although their means differ, want to see the economy grow. There is a danger—this is where the Labour party is going back to—of hankering after the good old days: a debt-fuelled boom, a pre-election bonanza, letting house prices rip away, and ignoring the consequences. Labour Members are unable to prise themselves away from what happened under the previous Government. I thought they had learned their lesson, because I thought the argument for Bank of England independence was that it took away responsibility for adjusting interest rates from politicians who might adjust them to suit the electoral cycle. I wonder whether they recognise that a debt-fuelled boom can equally be timed for the pre-election period to meet a Government's needs.

We are trying to move to a more stable and sustainable model for the financial services sector, so that we do not go back to those days. The hon. Member for Nottingham East cannot get over his Brownite desire to intervene. I counsel him to think about why we need these mechanisms and why the FPC needs to be independent.

The hon. Member for Islwyn raised another important point. I am pleased that he is feeling better and has had the opportunity to raise the important issue of the measurement of financial stability, which takes me back to an hour-long speech I gave during the passage of, I think, the Banking Act 2009.

Chris Leslie: An hour long?

Mr Hoban: Like the hon. Gentleman, I know how to fill time well. The speech was on how we can know financial stability and whether we should have a high-level objective, as we have in this Bill and the Banking Act, or whether we should go for something much more detailed and complex.

The hon. Member for Islwyn raised some important points. How do we measure financial stability? What is it? Do we know it when we see it? As I mentioned earlier, one would have thought in the run-up to the financial crisis that we had stability, but the reality is that the seeds of instability were being sown at the time. The interim FPC has given some thought to that, and the paper that was published in December 2011, "Instruments of Macroprudential Policy" includes in annexe 1 a discussion of some of the indicators of risk. It states that

"there is no unique indicator of systemic risk"

but that there are good indicators of "time-varying systemic risk" to identify imbalances and the need to tackle them. It suggests a series of quantity-based indicators, such as the ratio of credit to GDP, and indicators of the resilience of lenders. It will be important for the FPC, as part of its role in communicating to the wider world, to use some of those indicators to highlight where it thinks risks are arising. That question is an important part of the debate, and it is important for us to get to grips with it in Committee.

The hon. Gentleman may feel that we have not given any ground, but I hope that our debate has teased out some of the issues that the FPC needs to think about and some of the checks and balances that are imposed on it. I point particularly to proposed new sections 9C(4) and 9E(3)(a) of the Bank of England Act 1998, which I am sure we will discuss during the weeks ahead. There are some balances in place that achieve the outcomes that all members of the Committee want to see, which are financial stability and long-term sustainable economic growth.

Chris Leslie: The debate has been useful, and I am grateful to my hon. Friends the Members for Islwyn, for Leeds North East, for Edinburgh East and for Foyle for bringing their thoughts to bear on the amendment. Sometimes debates are polarised, partisan or binary, and everything is either black or white, but in this debate we have the possibility of a nuanced discussion. Although I think the hon. Member for West Suffolk took an all-or-nothing attitude—either we have stability, or we have growth, but the two shall not necessarily meet—the Minister in parts of his comments was, appropriately, more nuanced. He did, however, snap back into the old tactic of saying that accepting the amendment would send the country back into a debt-fuelled boom. We have to be grown-up enough to recognise that making recommendations about the FPC's having regard to the Government's economic objectives does not mean going back to such black and white views. Speaking of which, I would be happy to give way to the hon. Member for West Suffolk.

Matthew Hancock: In the spirit of being grown up, when we meet on Tuesday would the hon. Gentleman, having reflected and read the record, admit that he has just misrepresented my views?

Chris Leslie: It is funny, because I felt that my views had been misrepresented by the hon. Gentleman, so I think we will have to call it quits. Hearing the Government's points about proposed new section 9D and about proportionality, I believe that the FPC may be able to have regard to the Government's growth objectives if the Treasury writes and makes its recommendations, perhaps on an ad hoc basis, under the provisions in the Bill. I asked the Minister whether the Government intended to do that, and he could not quite bring himself to say so. If he had, maybe we would have been able to get on with things in a spirit of consensus. I am sure that we will return to the matter on another occasion, so we might want to take things further at that stage. As things stand, I get the sense that the Government are on the wrong side of the debate. It is not only Opposition Members who are making points, but the pre-legislative scrutiny Committee, Barclays, the London stock exchange, the CBI, the BBA and others. On this occasion, they are not being outlandish or excessive in their recommendations. Indeed, we are making a more modest recommendation, as the Minister has pointed out, than they are suggesting, but they have serious concerns, and it is important that we take them into account.

2.30 pm

The suite of macro-prudential policy tools that will potentially flow from the Financial Policy Committee could have a serious impact on growth. That impact may or may not be adverse, but growth would not necessarily be supported. Take, for example, the point that I made earlier about forbearance or the powers that they may take on the terms and conditions of loans, on the risk weighting of assets, or on mortgage availability, because all those are areas where we may want to see policies made that actually support jobs and growth, and it is not unreasonable to ask for that.

We do not want the financial stability of the graveyard. The Minister conceded that we should not have financial stability at any price. Gone, I hope, are the days where we hear politicians say, "Unemployment is a price worth paying," and so on, but we need to ensure that we frame the responsibilities of the FPC correctly. Just because the Minister is presenting the Bill, that does not make it the Government's property. It is the property of Parliament and therefore his assumption that the Government's jobs and growth strategies would naturally be taken into account by the FPC is not the case as the Bill stands.

Stephen Gilbert: The hon. Gentleman has been speaking for a long time, but he has surely not forgotten the points that he made on Tuesday about the composition of the FPC. Four members will be appointed by the Chancellor. How is it that you are perpetuating the notion that any communication between the Government and the FPC will be via pigeon post?

The Chair: Order. I am not perpetuating anything.

Chris Leslie: Thank you for your defence, Mr Howarth.

The members referred to by the hon. Gentleman will be in the minority on the Financial Policy Committee, and we established that point earlier on. I still do not think that we are quite in agreement about the chief executive of the FCA, but that is a debate for another time. I just think there is no harm in asking the FPC to have regard to the Government's jobs and growth objective.

With those comments, and being conscious of the time, I seek to divide the Committee on the amendment.

Question put, That the amendment be made.

The Committee divided: Ayes 8, Noes 10.

Division No. 6]

AYES

Durkan, Mark
Evans, Chris
Fovargue, Yvonne
Gilmore, Sheila
Hamilton, Fabian
Jamieson, Cathy
Leslie, Chris
Pearce, Teresa

NOES

Bradley, Karen
Burt, Lorely
Garnier, Mark
Gilbert, Stephen
Hancock, Matthew
Hands, Greg
Hoban, Mr Mark
Norman, Jesse
Rutley, David
Sharma, Alok

Question accordingly negatived.

Chris Leslie: I beg to move amendment 12, in clause 3, page 4, line 3, at end insert—

'(3A) In the event of the FPC coming into conflict with the MPC in the exercise of its objectives, the Governor should inform the Court and the Chancellor to explain how the conflict will be resolved.'.

On Second Reading, the shadow Chancellor spoke about the need for clarity on what will happen if the two large economic policy-making players—the Chancellor of the Exchequer and the Bank of England—disagree or have different attitudes on certain issues. The amendment concerns one facet of that, in relation to any conflicts that arise between the recommendations or directions of the FPC and those of the MPC. It would require such conflicts to be revealed not only to the court of the Bank but to the Chancellor.

That point was raised by the pre-legislative scrutiny Committee—none of us here was a member of it—whose report states that, although such occasions would be rare, the Governor should inform the court how disputes between the committees are to be handled. Paragraph 70 of the report states:

"On the rare occasions when the two committees might come into conflict the Governor should inform the Court—or the equivalent body if it is reformed—and the Chancellor, to explain how the conflict will be handled."

To what extent is the Governor able to ensure that the court fulfils its oversight role on the work of the committees and sub-committees of the Bank?

I understand that the Government have moved to a certain extent, by adding another clause to enable a joint meeting of the FPC and the MPC to take place. I imagine that it would be an interesting scenario to have those two institutions in the same room, but they can on occasion meet to resolve any particular difficulties, which seems sensible. My point is that, if that scenario arises, not only should the court be aware of it, but so should the Chancellor. The Minister may say that it would become apparent from the minutes of the MPC, or from a whole load of FPC members turning up at the same time, that something had gone awry. It seems a small point, however, in ensuring that we have proper joined-up government in the classic sense, to say that if there are bubbling, simmering divisions and diametrically opposed or conflicting views between the FPC and the MPC, the Chancellor should know. The amendment would not require that to be made public or for the whole world and its uncle to be told; it would only be for the Chancellor and the court to know what is going on, which is pretty reasonable.

The current proposals will not provide sufficient transparency to the Chancellor. It is important, and not only for the purposes of conflict resolution, to ensure that any flagging up or alarm bells are brought to the attention of the person who is ultimately accountable to Parliament. The buck stops with the Chancellor, and he should be aware of what is going on in economic policy. That is obvious, but such points sometimes have to be stated in legislation, so the Bill should say, "When conflicts arise, please tell the Minister in charge."

We have already discussed the deficiencies in the drafting of the memorandum of understanding between the Bank and Her Majesty's Treasury, and we will do so again under other clauses.

Stephen Gilbert: I am sorry that I missed the start of the hon. Gentleman's remarks, but I think I got their gist quickly this time. What does he suppose that the representative of the Treasury, appointed under new section 9B(1)(f), will be doing, if not telling the Chancellor about what the FPC is doing?

Chris Leslie: Heaven only knows, but there is no obligation on that representative to tell the Chancellor. If we are relying on a Treasury nark as a member of the FPC or the MPC—the number of Treasury narks is growing rapidly—to do that message-carrying role, it would be better to put such things on a formal footing, not just keep hoping that message will get back in particular circumstances.

The Bill is about a constitutional construction affecting our economy. We need the right wiring to be in place so that the Chancellor knows about such things. That is why we have the draft memorandum of understanding.

Mark Durkan: Surely, it is important that, in the event of conflict, it should not just be left to the Treasury representative to run off and tell the Chancellor. It is important, as the amendment states, that the Governor has that clear responsibility. It is nobody else's duty to advertise the difficulty or inform anybody else about it and how it will be resolved.

Chris Leslie: Exactly. It is reminiscent of Wikileaks and the diplomatic memos that had been hidden away. In recent Australian examples, little comments and notes made in the margins about certain people's behaviour or views in private committees are suddenly the best ways of communicating. It is far better to be open about it.

My hon. Friend is spot on. The Governor should report, representing properly the balanced disagreements that might or could exist between the FPC and the MPC. The Governor should also, as we said in the amendment, explain how the conflict will be resolved, because we do not want such conflicts to go unresolved.

Jesse Norman: Will the hon. Gentleman explain why including a representative of the Treasury, as a civil servant working to a Minister, does not constitute a formal process or relationship?

Chris Leslie: Because the Governor would not be representing that to the Chancellor. If there is a conflict within the Bank, it would be incumbent on the Governor to make representations in the right way, rather than have some internal whispering mechanism back to the Chancellor. I accept that it is possible that a Chancellor will find out that something is going on that is not quite right through the Treasury representatives. Far better for the Governor to make those representations: I am sure that he would agree. The Governor also needs to go further and explain how those conflicts can be resolved. That is the point of the amendment.

Jesse Norman: In other words, there is a formal process in place, but it is not the one that the hon. Gentleman would like.

Chris Leslie: I do not believe that there is a formal process in place. At no point is there an obligation. In fact, there are no obligations on that Treasury representative. It is perfectly reasonable to ask, "What will that Treasury representative do?" That is a debate for another time. There is no formal duty to report back, but that is not the main point of the amendment, which is about ensuring constitutionally and correctly that the right reporting and accounting lines are in place and that the court and the Chancellor are informed. We should not be in dispute about this.

Mark Garnier: The hon. Gentleman is a keen enthusiast on the work of the Treasury Committee. He will, no doubt, have read the full report, including my question number 375 to Paul Tucker on conflict resolution. Paul Tucker mentions that there could be conflict resolution, but highlights a few important points, which are relevant to this debate. He says:

> "Because it could happen, it is helpful, not only for us but for the country, that the support for the two committees will be provided by the Bank staff"—

the same people.

> "There is a common Chairman in the Governor. There is overlapping membership. The information base going to the two committees is broadly the same. Something that is no secret…is that FPC members are able to sit in on the briefing that the MPC receives",

and vice versa. There is quite a lot of overlap anyway, quite a lot of the same information, including the same sort of briefing information. Paul Tucker, who is instrumental in all of it, feels that conflict is unlikely anyway.

2.45 pm

Chris Leslie: I accept in a pragmatic sense that many of the organisations share similar memberships and data collection pools. That is the practical experience, but when it comes to reporting mechanisms, we either rely on convention and accrued unwritten processes or try to write them into the Bill. In proposing the legislation, the Government have already written into the Bill the potential for the FPC and MPC to meet formally to resolve conflict. A measure of formality already exists in the Bill, but there is no formality or duty on the Governor to inform the Chancellor of the Exchequer of a conflict that arises. There might be a way to sort such things out behind closed doors. Let us hope so. We want a Bank that is corporate and to ensure that disagreements are ironed out. That is the natural way of how such things work. I am not suggesting that we should try to write them to the nth degree, but it is important that the line of accountability is correct.

Monetary and stability policy are not the private fiefdom of the Governor or the Bank of England. We need a more collegiate and accountable framework in which the Chancellor of the Exchequer and, from time to time, Parliament are involved and have insight and scrutiny. That is my general feeling.

Mark Garnier: Is not the whole point of having an independent Bank of England the fact that it is independent? It is the fiefdom of the Bank of England for such things to be within its remit.

Chris Leslie: But, of course, Treasury representatives sit on the Monetary Policy Committee, and the MPC has a duty to have regard to the Government's objectives, so independence is caveated by the duties set out in the proposed legislation. It is not an isolationist strategy, setting aside the Minister's doctrine of compartmentalisation. I hope that he is not going down that particular route. We must ensure that we have appropriate independence of judgment, but at the same time, where possible, we must strive for a collegiate and consensual approach to the stewardship of the economy by such institutions. The idea that everything is free-floating and free-standing is not the design of existing structures, because they are wired and interconnected.

Government Members will get the point that I am making. The Chancellor of the Exchequer is ultimately accountable, and he should know of any serious mismatch of views. If interest rate policy starts heading in the opposite direction from financial stability policy, it matters, and the Chancellor of the Exchequer might need to take his own actions to correct the course or have an impact on that. It is trying to do the right thing by economic policy. Those are the reasons behind amendment 12.

Mr Hoban: I am bemused. First, let me be clear that the FPC and MPC are independent. The Bill makes it clear that it is the responsibility of the Governor and the courts to manage the interactions between the Bank's various responsibilities. If there is a conflict between the two bodies, clearly that should be discussed within the court. In its response to the Treasury Committee's recommendations, the court made it clear that the Governor and the chairman of the court should discuss such things and consider how to resolve them.

I am not quite sure why the Chancellor should be notified automatically, or unless the court or the Governor decide to do so. I thought that towards the end, the hon. Gentleman was getting into sticky territory. What would the Chancellor do if he knew, putting to one side the fact that he would know? I will give some reasons why I think he would know. These are independent bodies. If the MPC decides—let me continue this train of thought—to reduce interest rates, because the medium-term outlook for inflation means it could afford to do so, but at the same time the FPC decides that it wants to increase the capital requirements on a particular type of loan, because the credit market is getting a bit frothy in that area, that is a disagreement. However, given that both are independent and that the Chancellor cannot pull the levers, what purpose is served?

The problem for the hon. Member for Nottingham East is that simply telling the Chancellor does not lead to any particular outcome, because these are independent bodies and are best placed to resolve these issues. There could be genuine intellectual disagreements, but there are mechanisms in the Bill to enable the FPC and the MPC to work through those issues, partly through overlapping membership, which is helpful. As my hon. Friend the Member for Wyre Forest indicated earlier, members of the FPC can sit in MPC briefings. That is a good way of doing it. There is a facility for joint meetings.

One aspect of these arrangements is transparency, so that we know the MPC's decision on a monthly basis. The minutes are published; there is an inflation outlook. The FPC is equally transparent: we have twice-yearly financial stability reports, setting out its view of the economy, issues that affect financial stability and its proposed response. There is a lot of public transparency if there is a conflict between the two.

As my hon. Friends pointed out, there are Treasury representatives on both committees. There is a Treasury observer on the MPC and a Treasury representative on the FPC. Their roles are to provide a conduit to the Treasury to say what is going on. There are plenty of mechanisms to ensure people are aware if there is a conflict. Given that these are independent bodies and we know the precise remit of the Chancellor in relation to them, my question is: what can be done?

Mark Durkan: Has the Minister not just washed away most of his earlier contribution, by alluding to Treasury representatives? He said the Chancellor did not need to be told; he asked why the Chancellor would need to be bothered or to know. Now he has told us that Treasury representatives do tell him; two different Treasury representatives, who might give two different versions. Surely the Governor should communicate to the Chancellor and to the court. The Minister said the court would need to be told.

Mr Hoban: Perish the thought that Treasury officials might have two different views on what was going on. Goodness me, what is the world coming to? I do not think the amendment serves any purpose. There are routes for disagreements to be made known, not just to the Chancellor but to the whole world, through the transparency of the MPC and the FPC.

The hon. Member for Nottingham East ended in a slightly half-hearted way: what would the Chancellor do if he does know? In reality these are independent bodies and conflict should be resolved within the Bank of England and the court, rather than be refereed by the Chancellor of the Exchequer. I am not sure that the Chancellor sees himself necessarily as a referee between the MPC and the FPC. That is certainly not how they are set up.

Mark Durkan: The Minister said in his earlier remarks that the court should be informed. Who should inform the court of this conflict?

Mr Hoban: It is very obvious. The Treasury Committee report said that the Governor should tell the chairman of the court. However, that does not need to be in the Bill. In the same way that we do not need to put in the Bill how long the meetings should be or when they should start. How these committees function and the interaction between them does not need to be in primary legislation, as there are mechanisms governing that. These matters are internal to the Bank and do not need to be in the Bill. I encourage my hon. Friends to oppose the amendment if it is pushed to a vote.

Chris Leslie: It is coming to that point in the Bill where the weight of structural reforms that the Government are trying to manage is putting a strain on some of the normal accountability conduits that should exist between the primary institutions with responsibility for stewardship of our economy. If the Minister has his criticisms of the tripartite system, we are getting into choppy water already about embellished structures, quartets and so forth, plus the organisations involved and how they will all find out what is going on. Too many cooks spoil the broth is not necessarily the appropriate phrase, but one gets the sense that if there are not the correct reporting mechanisms between all the different actors in this superstructure of institutions or quangos, a new danger could be posed, especially if we end up with conflicts that cannot be properly ironed out.

The Government's response to much of this has been, "Let's have a memorandum of understanding. It does not need to be wholly in the Bill." As we know from the debate that has taken place so far, there is a deeply worrying sense that the Government have not grasped the importance of having clear lines of decision making and accountability between all those various actors. The Minister says that even if the Chancellor knew about conflicts between the FPC and the MPC, what would he do about it? We do not know those scenarios at this stage. These are all hypothetical questions that we are raising, but there could be serious matters of public policy that the Chancellor would need to know about and might wish to take some other public policy decision about.

Mr Hoban: The hon. Gentleman talks about hypothetical questions. The issue is the actual powers and levers that the Chancellor has to affect these things. In reality both the MPC and the FPC are independent.

Chris Leslie: We are back to this construct that the Chancellor of the Exchequer has no business knowing about or having an influence upon monetary or stability policy, which is nonsense. They are not all in their separate boxes, isolated from one another. The Chancellor of the Exchequer sets the goal for monetary policy—the 2% inflation target. There are connectivities between the various different players within the system. It is not supposed to be drawn with high fences and walls between them so that they do not know what is going on. Indeed, in the design of his own Bill it is not supposed to be like that.

Matthew Hancock: I have been listening carefully to the hon. Gentleman's argument, which is subtler than some we have heard. I want to ask to him to reiterate for the record his and his party's support for the independence

[Matthew Hancock]

of monetary policy and the Bank of England. It is an extremely important cross-party issue and his current argument sails dangerously close to the wind of undermining it. I just want him to make it explicitly clear that he supports that independence and is not trying to row away from it.

Chris Leslie: Back we go to that binary, black and white view of the world. One is in favour either of isolated institutions that do not talk to each other or of having them all blurred and confused. It is possible to have nuanced connectivities between the various actors within our economic constitution. Yes, the headline is independence for the Bank of England when it comes to monetary policy. Of course we support that. The hon. Gentleman well knows that, but he must also recognise that the Chancellor of the Exchequer sets the target for monetary policy. Does he accept that?

Let the record show that the hon. Gentleman nodded at that point. In which case there are connections between the body politic and the independent Bank of England. Having established that, he must surely recognise that if there are serious conflicts between stability policy and monetary policy, which cannot be resolved or which need to be resolved, it is at least desirable to ensure that the Chancellor has the right to know from the Governor how those conflicts will be resolved. If we are wasting our time in moving these amendments and being constantly rebuffed because the Government want a clean-skinned Bill all through the Committee, so at no point will we have any concessions and it will just be resist, resist, resist, there is a temptation to pack up and go. It is dangerous, however, for Government Members to play the game as if this is all about resistance and finding arguments. This is a serious point and the Government have to recognise it.

3 pm

David Rutley: The hon. Gentleman has talked at length about the so-called Fareham doctrine, but what we are hearing now is more a version of the Nottingham East doctrine, which is about blurred accountability. On this side, we are keen to support absolutely accountability between the institutions, rather than a blurring of them at the edges, which is what the Opposition are arguing for.

Chris Leslie: I do not think that it is fair to say that, just because we want the Chancellor of the Exchequer to know about a conflict between the MPC and the FPC, that is a bad thing. Surely he is not saying that. We are trying to ensure that his Chancellor is aware of what is going on in the Bank.

Mark Durkan: Surely we should not have a situation where, when there is conflict, the question is, "Shall we tell the Chancellor?" If they think that they should tell the Chancellor, there should not be a question of how they tell the Chancellor. It should surely be provided in clear terms, because, if this is an independent body and things are clear, the Governor should provide that information to the Chancellor, including how it will be resolved—not asking how it will be resolved, but explaining how it will be resolved. That is how independence and corporate integrity are asserted.

Chris Leslie: We have to try to write this into the Bill, because, while Ministers here can commit to informing the Bank if there is an issue of import, the Governor is not here in Committee, so he cannot make that commitment. If he was able to do that, perhaps we could accept this issue, but that is why we have to try to write these small and reasonable points into the Bill.

Cathy Jamieson: I have every respect for ideas that my hon. Friend thinks up from his experience and off his own back, but is it not important to recognise that once again his amendment puts forward a recommendation of the pre-legislative scrutiny Committee? It is therefore not particularly helpful for Government Members to suggest that it has come from nowhere and does not have that backing.

Chris Leslie: Perhaps I am not always my best advocate in these circumstances, because I might from time to time slip in a partisan point. I am as guilty of that as any other Member, but on this occasion, I implore the Minister to recognise that this is a genuine attempt to improve the Bill and to find a way of bringing to bear some of the pre-legislative scrutiny Committee's recommendations. It seems that the Minister does not want to do that. If there had been a willingness to listen or reflect on the point, we would be withdrawing the amendment, but I want to press it to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 8, Noes 10.

Division No. 7]

AYES

Durkan, Mark	Hamilton, Fabian
Evans, Chris	Jamieson, Cathy
Fovargue, Yvonne	Leslie, Chris
Gilmore, Sheila	Pearce, Teresa

NOES

Bradley, Karen	Hands, Greg
Burt, Lorely	Hoban, Mr Mark
Garnier, Mark	Norman, Jesse
Gilbert, Stephen	Rutley, David
Hancock, Matthew	Sharma, Alok

Question accordingly negatived.

Chris Leslie: I beg to move amendment 13, in clause 3, page 5, line 16, leave out 'operational'.

The amendment seeks to probe the Government's rationale for the drafting of the provisions in proposed new section 9E(2) that relate to the other general duties of the Financial Policy Committee, in working with the new Financial Conduct Authority or the Prudential Regulation Authority, and how, as far as possible, the FPC can

"avoid exercising the Committee's functions in a way that would prejudice—

(a) the advancement by the FCA of any of its operational objectives,

or

(b) the advancement by the PRA of any of its objectives."

The amendment seeks to delete the word "operational" with respect to the FCA. Will the Minister clarify why the language used here is different? I think the FCA's "operational objectives" are also mentioned elsewhere in the Bill, compared with the PRA's "objectives", but why not refer to the objectives of the FCA and the PRA equally? If the argument is that only the FCA has strategic and operational objectives, I do not understand why, in terms of the PRA's objectives, "general objective" is used on page 24, line 26, and, of course, by implication the PRA's insurance objective is left out or downgraded on page 25, from line 5 onwards.

What objectives of the PRA and FCA need to be taken account of by the FPC, and why is it not equal? As far as I can see, it would be better to have the objectives of the FCA receive an equal weighting and authority to those of the PRA, therefore treating each objective in a similar way. In the way that it is set out, there is a worry that if we downgrade the FCA to somehow being an operational body, it is viewed as second order or inferior. Such textual connotations can be drawn from the Bill's wording.

It is also important to ask why the drafting of the legislation explicitly leaves out the FCA's strategic objective. There has been a lot of debate about what that objective should be; it has chopped and changed from time to time since the draft of this legislation was first published, and the concept of ensuring that markets function well was settled on. That is the FCA's strategic objective, and I do not know why the FPC would not want to avoid prejudicing the advancement of that objective. Why has that been left out? Is it too prosaic? Is it unenforceable? What is the logic of the differential treatment?

Mr Hoban: Subsection (2) of proposed new section 9E requires the FPC to avoid as far as possible exercising its functions in a way that would prejudice the regulators' pursuit of their objectives. That duty is made subject to the FPC's pursuit of its own financial stability objective. The provision will not prevent the FPC from taking action that it believed necessary to protect or enhance financial stability, but will require it, where relevant, to choose the course of action that would have least impact on the ability of the PRA and the FCA to pursue their objectives.

I reassure the Committee that the difference in the language used in the proposed new subsection to refer to the objectives of the PRA and to those of the FCA does not mean that the duty on the FPC is different in respect of the two regulators. Instead, it merely reflects the different structure of their objectives. The PRA has a general objective to promote the safety and soundness of PRA-authorised firms. That objective is clear, and was referred to by the hon. Member for Nottingham East, but it is supplemented by a specific objective relating to the regulation of insurance companies. The reference in proposed new section 9E therefore refers to the PRA's "objectives", the general one and the one specific to insurers.

By contrast, the FCA has an overall strategic objective, which acts as an umbrella objective for its operational objectives. In discharging its general functions, the FCA must act in a way that is compatible with its strategic objective but that advances one or more of its operational objectives. The FCA derives its mandate from its operational objectives, which act as the real driver of its work and approach, so the FCA reference in proposed new section 9E is to "operational objectives", because it is its operational objectives that the FCA will pursue in its day-to-day work.

Let me elaborate a little, although I hope we shall debate the FCA in more detail at some other point in our discussion of the Bill. In conversation with the CEO designate of the FCA, he talked about its structure being based on those three operational objectives, which will drive not only the FCA's organisation but its work and focus. We shall talk about this at more length when we move on to the FCA, but those driving operational objectives are carefully thought through, to differentiate the FCA's different roles. In pursuing those operational objectives, however, the FCA still needs to act in a way that is compatible with the strategic objective.

That is why the wording differs, and it does so to reflect both the way in which the operational objectives will drive the work of the FCA and the difference between the FCA and the PRA. The FCA has in many respects a more complex task, given the different aspects of conduct that it is responsible for, whereas the PRA has a much more straightforward task to do with the safety and soundness of individual firms. It is important to reflect that difference in approach and objective between the two.

Mark Durkan: Accepting that there is a difference in the gearing of the regulators' respective objectives, what is wrong with the amendment? The amendment would ensure that none of the objectives of either is prejudiced. The Minister seems to be saying that by including "operational", the other objectives, whether strategic or general, can be prejudiced.

Mr Hoban: I am not saying that at all. The FPC must act in a way that is compatible with the operational objectives of the FCA, because those three objectives will be driving the work of the FCA, in the same way that the general objectives of the PRA will drive its work. I am talking about what the focus of the two bodies will be: the PRA will be driven by its general objectives, while the day-to-day operations of the FCA will be driven by its operational objectives. That is the point that I am trying to make.

Chris Leslie: We are talking about a part of the Bill in which the FPC must avoid prejudicing the objectives of the regulators. Is the Minister saying that the strategic objective of the FCA is not really important and therefore does not need to be factored in by the FPC? In which case, what is its point? If the strategic objective is important, what would be the harm in ensuring that the FPC must have regard to it?

3.15 pm

Mr Hoban: Proposed new section 9E seeks to reflect the distinct nature of the FCA's strategic and operational objectives. The operational objectives provide a spur to action by the FCA, and it is therefore those objectives that the FPC may cut across when taking action. The strategic objective of the FCA is different. The FCA is not required to advance the strategic objective. It must simply act compatibly with it. Thus, the strategic objective acts as a brake or backstop on action by the FCA. It operates to prevent the FCA from taking action to advance its operational objectives when to do so would be incompatible with the strategic objective. It is therefore difficult to see how action by the FPC

[Mr Hoban]

could cut across the strategic objective without also impeding the ability of the FCA to advance its operational objectives.

When we reach clause 5, we may discuss that interaction at greater length as that would certainly be the appropriate place, but I am keen to ensure that, when it acts to safeguard financial stability, the FPC acts in a way that is consistent with the FCA's operational objectives or with the general objective of the PRA. That simply reflects the difference in the scale of the challenge and the complexity of the PRA and the FCA. The PRA has clear, single objective: safety and soundness of firms. The FCA has a more complex and multi-faceted task given the nature of the market it will supervise and the types of consumers it will deal with.

Chris Leslie: I am grateful to the Minister for trying to clarify that issue. In a sense, it is difficult because we are having a debate about the objectives of the FCA and PRA before we have reached clause 5, but they are introduced in clause 3.

I am starting to worry about whether the strategic objective of the FCA is of any particular use, import or relevance at all if it is not to be taken into account. It is important that we try to address such questions. I will give the Minister an example. He says that the operational objectives of FCA are the spurs to action, which is correct. However, I am not sure that it is entirely true that the strategic objective does not matter to the FPC, because if the FCA's strategic objective is

"ensuring that the relevant markets…function well",

one can easily imagine a hypothetical scenario where the FPC may quixotically place an unfair weighting of pressures on one set of market players as opposed to another. In that situation, it could be argued that the FCA's strategic objective was being cut across, because the FPC's decisions would be impairing rather than aiding the ability of markets to function well.

The strategic objective is pretty prosaic anyway, so it is perhaps lost in the ether because it is not particularly definable. If that is the point, all I am saying is that there is a general anxiety that the strategic objective is not actually strategic, but rather it is a sub-optimal objective. I would have said that the strategic objective should be the principal driving force of the FCA. I apologise to the Committee for the semantics involved, but we are discussing important things.

Mr Hoban: It is clear that the FCA cannot act in opposition to its strategic objective, so there is a purpose to it. We should not simply pretend that it does not matter, or that the world would be much better if it did not exist. It provides advice, and there may be a situation in which, for example, the FCA decides to focus aggressively on its consumer protection objective to such an extent that it stops markets operating well. The strategic objective is there as a check on how the operational objectives drive behaviour, so there is a balance. It attempts to ask, "Where does the FPC have the most impact?" I think it will have the most impact on the operational objectives. The strategic objective is there as a brake to ensure that the FCA does not go headlong in pursuit of one of its operational objectives to the detriment of others.

Chris Leslie: I hope the Minister is right about the design of those objectives. From the FCA's point of view, its operational objectives need to be compatible with its strategic objectives, but that is not what we are talking about in clause 3. Here we are talking about whether the FPC is taking steps to avoid prejudicing the objectives of either of the regulators. My contention is that it would not do any harm to ensure that the FPC did not cut across any of the FCA's objectives, rather than just the operational ones.

I am happy to withdraw the amendment, although it has a genuine point. The Minister may want to take a look at the matter and return to it on Report. It seemed to me as though no harm could come from the removal of the word "operational." If the Minister can tell me that any harm would result, I am happy to cede the point, but I do not yet see what that harm is.

Mr Hoban: Harm comes from this: we need to ensure that the work of the FPC or its recommendations do not cut across the operational objectives of the FCA, or minimise the impact. I might have had more sympathy if the amendment had included "strategic" and "operational" rather than simply focusing on "strategic," but let me think about that point.

Chris Leslie: That was a very helpful intervention. Maybe we are at cross-purposes, because I want the FPC to avoid prejudicing not only the FCA's strategic objective but any of its objectives, especially the general ones. Ultimately, if we are giving the FCA a set of objectives and asking the FPC to be cognisant of and not prejudice them, it seems important to make sure that we do not inadvertently exclude the strategic objective. With the Minister's helpful offer to take another look at the matter, I am happy to withdraw the amendment.

Amendment, by leave, withdrawn.

Chris Leslie: I beg to move amendment 39, in clause 3, page 6, line 7, at end insert—

'(1A) The Financial Policy Committee may give a direction to the FCA or the PRA requiring the regulator to exercise its functions so as to ensure the implementation, by or in relation to a specified class of regulated persons, of a disclosure of their leverage ratio, as defined in the Basel III agreement, as part of their regular reporting not later than the beginning of 2013.'.

The amendment relates to directions by the Financial Policy Committee to either of the regulators, the FCA or the PRA, requiring macro-prudential measures. This is a fairly important part of the wiring between the Bank of England and the two regulators. Clause 3 disproves the notion that the FCA is wholly independent, in its little box, from the FPC. Of course there are directions that go from the Bank to the conduct regulator. That wiring is there, so we can move on from the black and white approach to things.

Amendment 39 relates to a specific metric: the leverage ratio. We bring it to the Committee's attention because of the comments made by the Governor of the Bank of England, Sir Mervyn King. As recently as December, he said that he thought it was important for investors to be able to make

"a clear assessment of the strength of banks' balance sheets"

and that funding follows the absence of concerns about solvency. He said that steps should therefore be taken to bring forward to 2013 the publication of a leverage ratio, measuring total borrowing two years ahead of global competitors.

For hon. Members who are not familiar with the concept, a leverage ratio requirement is intended to put a floor under the build-up of leverage in the banking sector. It is important to have additional safeguards against model risk and measurement error by supplementing the risk-based measure with a simpler one based on gross exposures. The leverage ratio concept should be brought forward as soon as possible. Other parts of the Bill relate to obligations on specific classes of regulated persons. I have tried my best, with assistance, to frame the amendment to insert its obligation at a relevant point. I accept that it might fit better somewhere else in the Bill, but the Minister will understand my point.

The amendment reflects a recommendation made by the interim FPC. The record of its meeting on 23 December states:

> "Given its potential usefulness to investors as an additional solvency metric, the Committee recommended that the FSA encouraged banks to disclose their leverage ratios, as defined in the Basel III agreement, as part of their regular reporting not later than the beginning of 2013."

We tried to import those words into the amendment. At that meeting, the committee also discussed

> "a range of other issues associated with the existing calculation of risk weights. The methods used to calculate risk weights, particularly those which used banks' own internal models, were opaque to investors and regulators."

There are problems, therefore, with being able to read across from bank to bank and institution to institution. Those are the FPC's words, not mine.

Matthew Hancock: I have some sympathy with what the hon. Gentleman is saying, although we would have to be careful, for example, about building societies such as Nationwide, because mucking up its leverage ratio would be different from the position with banks. The Governor wants such an arrangement and the interim FPC has suggested it, so why on earth does he want to write it into the Bill?

Chris Leslie: Because it needs to happen. It is important that we, as parliamentarians, do our bit to ensure that policies are changed. The hon. Gentleman often talks about learning lessons, and this is one such lesson. We need a metric that enables more transparency about the leverage level and the risks that can build up. It would also allow investors to make their own judgments about the relative risks of a financial institution as opposed to those of another.

The interim FPC continued:

> "Market intelligence suggested that this opacity had impaired confidence in risk-weighting methodologies and could have dented market confidence in regulatory capital ratios. That in turn suggested that there was a potentially useful role for a leverage measure that did not attempt to adjust for the riskiness of banks' exposures, as a backstop to risk-sensitive measures of solvency."

It also noted that, under Basel III, banks will be obliged to calculate a commonly defined leverage ratio. They will be required to calculate it from 1 January 2013, but they will not have to disclose it until 1 January 2015. The purpose of the amendment is to see whether the Government agree that that publication process should take place two years earlier than the Basel III arrangements. It seeks the Minister's view. Does he agree with the Governor of the Bank, and if not will he explain why not? I shall be interested to hear his response.

3.30 pm

Mr Hoban: We should all be pleased that the discussion of macro-prudential tools has moved beyond the narrow confines of the Bank and the interim FPC to this Committee. The situation is slightly curious. A mechanism is in place in the Bill to allow for proper consultation on macro-prudential tools, and there is a parliamentary process for their approval. I believe the Committee agrees with that. It is slightly odd in that context that the hon. Member for Nottingham East seeks to put this particular tool in the Bill. One challenge is that if for some reason the tool ceased to be effective, we would have to amend primary legislation to remove it from the Bill, instead of going through the order-making power that will be in place for other macro-prudential tools.

However, it is an interesting idea, and the Government agree that disclosure of leverage ratios will be a useful indicator. We agree with the Basel III proposals to make that part of regular reporting from January 2015. We are arguing for disclosure, and a strengthened and binding commitment to be included in pillar 1, and for that to be reflected in CRD4, the capital requirement directive that is in the process of going through Brussels at the moment.

Chris Leslie: Why does the Minister not want disclosure of the leverage ratio from 1 January 2013 onwards? Why wait until 2015?

Mr Hoban: We just need to reflect on that. I am not closing my mind to it. The work of the Independent Commission on Banking indicated the importance of leverage ratios in moving to a more stable and sustainable banking sector. However, as my hon. Friend the Member for West Suffolk said, there are different implications for different institutions. He mentioned the Nationwide, and there are others for which it might work in a slightly counter-intuitive way. We need to think quite carefully about disclosure and use of leverage ratios, and what their impact might be. We will continue to reflect on that.

The key and slightly processy point is that we set out a process in the Bill for introducing macro-prudential tools. We should follow that process, but we should also ensure that there is proper discussion about macro-prudential tools before they come into effect. I believe that the hon. Gentleman's amendment would circumvent the process that we seek to set out, but I do not disagree with him on the fundamental point that leverage ratios can play a key role in monitoring sustainability and stability of individual banks and the sector as a whole.

The Chair: Order. There will be at least one Division in the House, and perhaps more, when the House has had the benefit of Mrs Bone's advice. If the hon. Gentleman will take that into account—not Mrs Bone's advice—we may be able to advance.

Chris Leslie: It is difficult to judge. If a Division happens, it happens. There are only so many things one can juggle at one time, Mr Howarth.

Jesse Norman: We are dealing with only one thing at the moment. Is that too many?

Chris Leslie: I am thinking of the hon. Gentleman's best interests, because if we have several Divisions, we could go beyond 4 o'clock. I would be happy to work with the usual channels to ensure that the Committee adjourns at an appropriate time. I am trying to think about such matters, but I am happy to press on with the Bill if other Members are also willing to do so.

I am grateful that the Minister does not have a closed mind on this issue. That is helpful, but I think 2015 is too long to wait for the publication of the leverage ratios, which are an important metric that we need to help sweep away the opacities in the market. If the primary argument is that the amendment should not be made because it is too specific, I do not know the purpose of primary legislation. Ultimately, there is already a problem with creating a framework to delegate a load of quasi-legislative powers to the FPC without knowing what the FPC is going to do with such specific macro-prudential tools.

It would have been preferable for at least the first tranche of macro-prudential tools to be referenced somewhere in primary legislation, which would have been a better way to proceed. We all know what happens with items of secondary legislation, particularly when they are brought through one at a time and not considered in context, with a short time for debate, which can be technical. Putting the bare bones of the tools in primary legislation is sometimes important, but that is a dispute about what should or should not be included in the Bill.

Mr Hoban: The process seems slightly odd, because, as the hon. Gentleman says, there needs to be proper consultation—we need to understand the impact of the tools. Making the amendment would circumvent that process, and Parliament would express its view on the relevance of leverage ratios before there had been a proper public consultation. We are seeking to ensure that, once the interim FPC has published its recommendations, there is proper public consultation and that people understand the macro-economic and socio-economic impact of the measures. Once the consultation is over, the House will decide which tools the FPC should have. It is vital that Parliament takes control, but it is also vital that there be proper public debate in advance of that process, and the amendment circumvents that process.

Chris Leslie: I am delighted to hear that the Minister thinks Parliament should take control of the process. We will come on to that when we consider the next group of amendments. In the meantime, it is a fair point: if we make the amendment, there will arguably not be much consultation. We legislators should sometimes have the right to make amendments; otherwise there is not much point in our being here. Although the full 12-week consultation would be preferable, if the Minister is happy to look at it and publish the leverage ratios in 2013, I am happy to withdraw the amendment in that spirit.

As far as I can see, leverage ratios are important measures. They are less easy for bank accountants to manipulate, allow better read-across and comparisons and could ease investor reluctance to buy bank debt, for example. I am glad that the Minister is not closed-minded to that, and, hopefully, he will take something away.

Perhaps the Minister will agree to write to me and the Committee about the Treasury's attitude to the 2013 deadline, if he is so inclined. I would be happy to give way to him if he will give the Committee a sense of whether the Government think that 2013 is possible. There might be good reasons for not having a 2013 deadline, but leverage ratios are an important measure. I am trying to give him an opportunity to say whether he will write to the Committee and give us the Treasury's view.

Mr Hoban: I am always happy to write to the Committee to accelerate progress, given how little progress we have made on the Bill. This is the fourth of 16 sittings on the Bill and we need to make more progress. In that spirit, I will write to the Committee.

Chris Leslie: I am very grateful for that, but following his 25-minute speech earlier, the Minister cannot talk about brevity any more than the rest of us. This is an important matter and, on the grounds that he will clarify it in writing, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Ordered, That further consideration be now adjourned.—*(Greg Hands.)*

3.40 pm

Adjourned till Tuesday 28 February at half-past Ten o'clock.