



House of Commons
Treasury Committee

**Appointments of
Dame Clara Furse,
Richard Sharp, and
Martin Taylor to the
Financial Policy
Committee**

First Report of Session 2013–14

Volume I



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Appointments of Dame Clara Furse, Richard Sharp, and Martin Taylor to the Financial Policy Committee

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Volume I

Report, together with formal minutes

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

Current membership

Mr Andrew Tyrie MP (*Conservative, Chichester*) (Chairman)
Mark Garnier MP (*Conservative, Wyre Forest*)
Stewart Hosie MP (*Scottish National Party, Dundee East*)
Andrea Leadsom MP (*Conservative, South Northamptonshire*)
Mr Andy Love MP (*Labour, Edmonton*)
John Mann MP (*Labour, Bassetlaw*)
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David Ruffley MP, (*Conservative, Bury St Edmunds*)
John Thurso MP (*Liberal Democrat, Caithness, Sutherland, and Easter Ross*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/treascom.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in printed volume(s). Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Chris Stanton (Clerk), Lydia Menzies (Second Clerk), Jay Sheth and Adam Wales (Senior Economists), Hansen Lu, Matthew Manning (on secondment from the FSA) and Duncan Richmond (on secondment from the NAO) (Committee Specialists), Steven Price (Senior Committee Assistant), Eldon Gallagher and Lisa Stead (Committee Assistants) and James Abbott (Media Officer).

Contacts

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Introduction

The Financial Policy Committee

1. An interim Financial Policy Committee has been in existence since 2011. Following amendments to the Bank of England Act 1998 by the Financial Services Act 2012, the Financial Policy Committee (FPC) now has a statutory basis. The Financial Policy Committee is comprised of the Governor of the Bank of England, the three Deputy Governors of the Bank, the Chief Executive of the Financial Conduct Authority (FCA), one member appointed by the Governor of the Bank after consultation with the Chancellor of the Exchequer (at present Andy Haldane, who has executive responsibility within the Bank for the analysis of threats to financial stability), and four ‘external’ members appointed by the Chancellor of the Exchequer.¹ A representative of the Treasury is also a member of the FPC, but may not vote.² Unlike the Monetary Policy Committee, the Financial Services Act 2012 requires that, when the FPC meets, “The person chairing the meeting must seek to secure that decisions of the Committee are reached by consensus wherever possible”.³ Should that person form the view that consensus cannot be reached, “a decision is to be taken by a vote of all those members present at the meeting.”⁴

2. The Financial Policy Committee is charged under the Financial Services Act 2012 with:

- (a) contributing to the achievement by the Bank of the Financial Stability Objective, and
- (b) subject to that, supporting the economic policy of Her Majesty’s Government, including its objectives for growth and employment.⁵

The Bank of England’s Financial Stability Objective is “to protect and enhance the stability of the financial system of the United Kingdom”.⁶

3. To achieve its purposes, the FPC has been granted powers of recommendation and powers of direction (the so-called ‘macroprudential tools’). In its consultation paper on these powers, HM Treasury explained that:

The FPC will have the power to make recommendations to the regulators (which can be made on a comply-or-explain basis), to the Treasury, within the Bank and to other relevant persons.

In practice, the Government expects the FPC’s broad and flexible powers to make recommendations to be the primary means by which the FPC will address the risks it

1 Financial Services Act 2012, Section 4 (1)

2 Financial Services Act 2012, Schedule 1

3 Financial Services Act 2012, Schedule 1

4 Financial Services Act 2012, Schedule 1

5 Financial Services Act 2012, Section 4 (1)

6 Bank of England Act 1998, Section 2(A) as amended by the Financial Services Act 2012, Section 2

identifies in many circumstances. However, in some circumstances it will be appropriate for the FPC to direct the regulators to take action. Therefore, in addition to recommendation powers, the legislation will also provide the FPC with a direction-making power over the PRA and FCA.⁷

The Treasury has decided to provide the FPC with powers of direction over the counter-cyclical capital buffer, and sectoral capital requirements.⁸ However, despite a recommendation from the interim FPC to be provided with a power of direction over the leverage ratio⁹, the Treasury argued in September 2012 that:

The Government intends to provide the FPC with a time-varying leverage ratio direction-making tool, but no earlier than 2018 and subject to a review in 2017 to assess progress on international standards. The precise design of the tool will depend on the provisions of the relevant European legislation and will be set out in secondary legislation to be introduced by the Government at the time.¹⁰

4. The amendments to the Bank of England Act 1998 by the Financial Services Act 2012 require the Treasury to specify for the FPC what the economic policy of Her Majesty's Government is to be taken to be.¹¹ The Financial Services Act 2012 also empowers the Treasury to make recommendations to the FPC:

The Treasury may at any time by notice in writing to the Financial Policy Committee make recommendations to the Committee about—

(a) matters that the Committee should regard as relevant to the Committee's understanding of the Bank's Financial Stability Objective;

(b) the responsibility of the Committee in relation to the achievement of that objective;

(c) the responsibility of the Committee in relation to support for the economic policy of Her Majesty's Government, including its objectives for growth and employment;

(d) matters to which the Committee should have regard in exercising its functions.¹²

The Chancellor of the Exchequer wrote on 30 April 2013 to the Governor of the Bank of England both to set out the economic policies of the Government and to make

7 HM Treasury, *The Financial Services Bill: the Financial Policy Committee's macro-prudential tools*, Cm 8434, September 2012, paras 1.9–1.10

8 HM Treasury, *The Financial Services Bill: the Financial Policy Committee's macro-prudential tools*, Cm 8434, September 2012, paras 4.5, 4.18

9 Bank of England, *Financial Policy Committee statement from its policy meeting*, 16 March 2012, p1

10 HM Treasury, *The Financial Services Bill: the Financial Policy Committee's macro-prudential tools*, Cm 8434, September 2012, para 4.31

11 Financial Services Act 2012, Section 4

12 Financial Services Act 2012, Section 4

recommendations to the FPC on the matters outlined above, in a letter entitled “Remit and Recommendations for the Financial Policy Committee”.¹³

Our inquiry

5. This Report considers the appointment of Dame Clara Furse, Mr Richard Sharp and Mr Martin Taylor as external members on the Financial Policy Committee. We took evidence from Dame Clara Furse, Mr Sharp and Mr Taylor on Tuesday 4 June 2013. They each provided a full CV and answered our questionnaire prior to giving oral evidence. We thank them for their evidence.

6. In our Report on the *Appointment of Dr Donald Kohn to the interim Financial Policy Committee*, we concluded that:

At present, we see no reason to differ from the practice undertaken at appointment hearings into the MPC and the OBR. Personal independence and professional competence are the criteria we will use to assess the suitability of the proposed candidates to the interim FPC.¹⁴

These are the criteria we have used to assess the suitability of the appointments to the statutory FPC discussed in this Report.

13 HM Treasury, Remit and Recommendations for the Financial Policy Committee, Letter from the Chancellor to the Governor of the Bank of England, 30 April 2013

14 Treasury Committee, Appointment of Dr Donald Kohn to the interim Financial Policy Committee, Thirteenth Report of Session 2010–12, para 7

1 The appointment of Dame Clara Furse

Background on Dame Clara Furse

7. From May 1998 to December 2000 Dame Clara was Group Chief Executive of Credit Lyonnais Rouse. From January 2001 to May 2009 Dame Clara was Chief Executive of the London Stock Exchange Group. Dame Clara has held a number of non-executive or advisory positions, including one at Fortis SA between 2006 and 2009. While on the FPC, Dame Clara will remain a non-executive director of Nomura Holdings Inc, Amadeus IT Holdings SA and the Department for Work and Pensions. She will also be a member of the Panel of Senior Advisors to Chatham House.

Our evidence

8. In oral evidence, we questioned Dame Clara about her personal suitability for the post, the issues facing the new statutory FPC, and how she saw herself responding to those issues. The topics we questioned Dame Clara about included:

- How she will demonstrate her independence;
- The leverage ratio tool;
- Her role as a non-executive director at Fortis;
- The secondary objective of the FPC; and
- The structure of the financial system.

Conclusions

9. **The Committee expressed serious concerns about the appointment of Dame Clara Furse, relating to:**

- **Her awareness of the importance of asserting the independence of the Financial Policy Committee; and**
- **Her explanation of her role on the board of Fortis in relation to the purchase of part of ABN AMRO and Fortis's subsequent bailout, and the lessons she said that she had learnt from that experience.**

10. **With these reservations, we have concluded that Dame Clara Furse has the professional competence and personal independence to be an external member of the Financial Policy Committee. We wish her every success in her new role.**

2 The appointment of Richard Sharp

Background on Mr Sharp

11. Mr Sharp worked between 1985 and 2007 at Goldman Sachs, prior to which he had worked at JP Morgan between 1978 and 1984. While on the FPC, Mr Sharp will remain Chief Executive of DII, a private investment company. He will also be non-executive Chairman of Huntsworth plc, a quoted media company which owns Citigate, a financial PR company; a non-executive Director of Oncimmune, a private cancer diagnostic company; and a non-executive Director of International Rescue Committee, an NGO which contracts with the Department for International Development. He will be a member of the Mayor of London's Panel of Economic Advisors and a Director for the Centre of Policy Studies.

Our evidence

12. In oral evidence, we questioned Mr Sharp about his previous experience, the issues facing the new statutory FPC, and how he saw himself responding to those issues. The topics we questioned Mr Sharp about included:

- His independence, especially in light of his donations to a political party;
- The potential split of RBS;
- The macroprudential tools, and especially the time varying leverage ratio tool;
- His previous role at Goldman Sachs, and its potential to cause embarrassment;
- What he will bring to the role and his technical expertise;
- The Eurozone crisis;
- The level of bank capital;
- The relationship between the PRA and the FPC;
- Operational risk; and
- How he will communicate his views.

Conclusions

13. Noting that he himself has recognised that he will need to acquire technical knowledge, we are satisfied that Mr Sharp has the professional competence and personal independence to be an external member of the Financial Policy Committee. We wish him every success in his new role.

3 The appointment of Martin Taylor

Background on Mr Taylor

14. Mr Taylor has experience as a journalist for the Financial Times. Among the other roles Mr Taylor has undertaken, he was Chief Executive of Barclays between 1994 and 1998. Mr Taylor also served as an adviser to Goldman Sachs International from 1999 to late 2005 (and chaired the firm's non-US audit committee). He was Chairman of the WH Smith Group PLC between 1999 and 2003, prior to which he had been a non-executive director between 1993 and 1997. He also served as a member of the Independent Commission on Banking under Sir John Vickers. Mr Taylor recently retired as Chairman of Syngenta. While on the FPC, he will retain a board membership role at RTL Group in Luxembourg, where he will be vice-chairman, though his term will expire in April 2015.

Our evidence

15. In oral evidence, we questioned Mr Taylor about his previous experience, the issues facing the FPC, and how he saw himself responding to those issues. The topics we questioned Mr Taylor about included:

- His previous experience;
- His personal independence and the independence of the FPC;
- The secondary objective of the FPC;
- His view on the manipulation of LIBOR;
- His future speeches and his role in communicating with the public;
- The leverage ratio tool; and
- Ethics in banking, and the potential for further bad practice to come to light.

Conclusions

16. We are satisfied that Mr Taylor has the professional competence and personal independence to be an external member of the Financial Policy Committee. We wish him every success in his new role.

Formal Minutes

Tuesday 4 June 2013

Members present:

Mr Andrew Tyrie, in the Chair

Andrea Leasdom
Mr George Mudie
Mr Brooks Newmark

Jesse Norman
David Ruffley
John Thurso

Draft Report (*Appointments of Dame Clara Furse, Richard Sharp, and Martin Taylor to the Financial Policy Committee*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 12 June at 9.15 am

Witnesses

Tuesday 4 June 2013

Dame Clara Furse DBE, external member, Financial Policy Committee

Richard Sharp, external member, Financial Policy Committee

Martin Taylor, external member, Financial Policy Committee

List of printed written evidence

- 1 Dame Clara Furse DBE: Response to Treasury Committee questionnaire and curriculum vitae
- 2 Richard Sharp: Response to Treasury Committee questionnaire and curriculum vitae
- 3 Martin Taylor: Response to Treasury Committee questionnaire and curriculum vitae

List of Reports from the Committee during the current Parliament

Session 2010–12

First Report	June 2010 Budget	HC 350
Second Report	Appointment of Dr Martin Weale to the Monetary Policy Committee of the Bank of England	HC 475
Third Report	Appointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 476
Fourth Report	Office for Budget Responsibility	HC 385
Fifth Report	Appointments to the Budget Responsibility Committee	HC 545
Sixth Report	Spending Review 2010	HC 544
Seventh Report	Financial Regulation: a preliminary consideration of the Government's proposals	HC 430
Eighth Report	Principles of tax policy	HC 753
Ninth Report	Competition and Choice in Retail Banking	HC 612
Tenth Report	Budget 2011	HC 897
Eleventh Report	Finance (No.3) Bill	HC 497
Twelfth Report	Appointment of Dr Ben Broadbent to the monetary Policy Committee of the Bank of England	HC 1051
Thirteenth Report	Appointment of Dr Donald Kohn to the interim Financial Policy Committee	HC 1052
Fourteenth Report	Appointments of Michael Cohrs and Alastair Clark to the interim Financial Policy Committee	HC 1125
Fifteenth Report	Retail Distribution Review	HC 857
Sixteenth Report	Administration and effectiveness of HM Revenue and Customs	HC 731
Seventeenth Report	Private Finance Initiative	HC 1146
Eighteenth Report	The future of cheques	HC 1147
Nineteenth Report	Independent Commission on Banking	HC 1069
Twentieth Report	Retail Distribution Review: Government and FSA Responses	HC 1533
Twenty-first Report	Accountability of the Bank of England	HC 874
Twenty-second Report	Appointment of Robert Jenkins to the interim Financial Policy Committee	HC 1575
Twenty-third Report	The future of cheques: Government and Payments Council Responses	HC 1645
Twenty-fourth Report	Appointments to the Office of Tax Simplification	HC 1637
Twenty-fifth Report	Private Finance Initiative: Government, OBR and NAO Responses	HC 1725
Twenty-sixth Report	Financial Conduct Authority	HC 1574
Twenty-seventh Report	Accountability of the Bank of England: Response from the Court of the Bank	HC 1769
Twenty-eighth Report	Financial Conduct Authority: Report on the Governments Response	HC 1857
Twenty-ninth Report	Closing the tax gap: HMRC's record at ensuring tax compliance	HC 1371
Thirtieth Report	Budget 2012	HC 1910

Session 2012–13

First Report	Financial Services Bill	HC 161
Second Report	Fixing LIBOR: some preliminary findings	HC 481
Third Report	Access to cash machines for basic bank account holders	HC 544
Fourth Report	Appointment of Mr Ian McCafferty to the Monetary Policy Committee	HC 590
Fifth Report	The FSA's report into the failure of RBS	HC 640
Sixth Report	Appointment of John Griffith-Jones as Chair-designate of the Financial Conduct Authority	HC 721
Seventh Report	Autumn Statement 2012	HC 818
Eighth Report	Appointment of Dr Mark Carney as Governor of the Bank of England	HC 944
Ninth Report	Budget 2013	HC 1063

Session 2013–14

First Report	Appointments of Dame Clara Furse, Richard Sharp, and Martin Taylor to the Financial Policy Committee	HC 224
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