Questionnaire in advance of Treasury Committee hearing
Martin Taylor

Personal/General

Q1. Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in carrying out your duties as a member of the FPC?

No. I have retired as Chairman of Syngenta, and my only other business role is a board membership at RTL Group in Luxembourg, where I am vice-chairman with a term expiring in April 2015.

Q2. Is there anything you wish to draw to the attention of the Committee from your previous work experience?

No, except as in 5 below.

Q3. Do you intend to work for the full term for which you have been appointed?

Yes – most certainly.

Q4. Why have you decided to join the FPC?

I have always wanted to do some public service work at the end of my full-time business career. I applaud the setting up of the FPC and the attempt to carry out systematic macroprudential policy, and am anxious to be helpful if I can.

Q5. Please explain how your experience to date has equipped you to fulfill your responsibilities as a member of the FPC. In particular, what areas of the FPC's work do you believe you will make a particular contribution to, and which will you have to undertake additional research into upon your arrival?

In chronological order: I wrote about banking in the period around 1980 for Reuters and the Financial Times; I was Chief Executive of Barclays from January 1994 to November 1998; I served as an adviser to Goldman Sachs International from 1999 to late 2005 (and chaired the firm's non-US audit committee); I was a member of the Independent Commission on Banking in 2010/11. So I have direct and indirect experience, as an observer over four decades, as a practitioner over two, and as a customer in many guises, of UK and international retail and investment banking, and I am familiar with the broad lines of the post-crash regulatory response. When at Barclays I was closely involved in the purchase and integration of the business that subsequently became known as BGI; I was chairman of Goldman Sachs Asset Management International, and have been a director of two investment companies, Buttonwood Focus Fund, a long-short hedge fund, and Oxford Investment Partners. So I also have wide experience of the asset management industry, and familiarity with the investor point of view. I would hope to be involved in all aspects of the FPC's work. I need to increase my familiarity with the issues facing the insurance industry, of which I have little direct experience. With all the attention given to banking over the last few years, the insurers have been rather out of the supervisory spotlight.

Q6. Which of your publications and papers are of most relevance to your future work on the FPC?

n/a

Financial stability and the Financial Policy Committee

I should like to preface my replies to these questions with a general disclaimer. Our appearance before the Treasury Committee is taking place before we have properly engaged with the FPC's work, and I am anxious that my answers should be seen for what they are – first impressions, not always thoroughly informed. I am suspicious of those who enter upon new duties with their minds made up on every issue, and I would hope that the Committee members both shared this prejudice and would be inclined to acquit me of any such pre-determination.

Q7. What do you regard as the main challenges facing the FPC over your tenure as FPC member?

The FPC is a new committee, and its ways of working are not yet set in stone. Its areas of legitimate interest are extremely broad, which imposes the requirement to set priorities. Otherwise there may be a danger that the committee either falls into a kind of frantic hyper-activity, or simply sprawls over too large a field and fails to make an impact in those areas where its intervention might be most important. Its main challenge, of course, is to make the right calls (and to decide how many calls to make, and where); it also seems highly desirable that its interventions should become, if not exactly predictable, at least capable of being anticipated by the markets to some extent. The way the committee explains itself is likely to be very important in this regard.

Q8. What do you think is currently the most significant risk to financial stability facing the UK?

The combination of a banking sector that is still rather undercapitalized with moderately weak economic activity continues to pose a significant risk, with a feedback loop running from weak banks to the economy and vice versa. This should not be taken to imply that I believe the increases in regulatory capital already feeding through the system (whether from Basel III and CRDIV, the legislation before Parliament following the work of the ICB and the Parliamentary Commission on Banking Standards, or the recommendations of the Interim FPC) are inadequate. Indeed I broadly feel that standard-setting for bank capital has been "done" for the moment, which is not to say that banks have yet reached the standard – they clearly need to do so. But I would hope the FPC would not spend all its time re-opening the bank capital question; we seem to be moving from a wildly inadequate position on capital levels to one that should soon be roughly satisfactory.

Q9. What do you regard as the strengths and weaknesses of the work undertaken by the interim FPC?

The interim FPC seems to me to have done an excellent job in establishing the standards and credibility of the new committee. It seems to have prioritized bank capital issues (see 8 above), and I suspect that was the right thing to do at the beginning. It was not in existence for long enough to allow its ways of working to be well enough understood from outside to permit intelligent anticipation of its conclusions by banks and their investors.

Q10. How do you assess the public communications of the FPC so far with regard to financial stability policy and decisions? What challenges remain?

See 7 and 9 above. It was never to be supposed that the business of setting and anchoring expectations about likely interventions could be achieved by the committee in its early stages, since this requires time - experience and continuity. That challenge falls to us.

Q11. What is your assessment of the macroprudential tools that will be available to the FPC? Are there additional tools or powers which you think it would be useful for the FPC to have?

The tools that we have are certainly useful. I believe, though, that being able to manage the gross leverage of the banking system is a crucial macroprudential tool, given the imperfections of risk-weighting and the industry's tireless gaming of capital targets. In this respect I find it disappointing that the Government has so far held back in this area, both in the full implementation of the ICB recommendations and in the granting of powers over leverage to the FPC. In fact I think this is a major weakness not just of the FPC's toolkit but of UK – and European - financial policy.

Q12. What is your assessment of the FPC's core indicators? Which ones do you see as being the most important, and are there any additional indicators that you think should be considered?

I am not yet qualified to give a properly considered reply. I note that the indicators are quite numerous. If you have a lot of indicators, it's usually a mistake to decide up front which ones are the most important (because then why bother with the others?). Sometimes a relatively "minor" indicator can give an important clue. In particular, indicators that are not the object of regulatory directives (gross leverage, for example, not that that's a minor indicator) often give truer signals than others, as a corollary of Goodhart's Law.

Q13. What is your own initial view of the new FPC remit?

I had understood that the remit of the FPC was set by the Bank of England Act. It seems from the Chancellor's recent letter to the Governor of the Bank, setting out his ideas on the task facing the FPC, that he is concerned that the committee might pursue the reinforcement of the capital base of the banking system irrespective of the impact on the economy. I have no reason to suppose that the FPC will be insensitive to the issues of economic growth, since a weak economy itself undermines financial stability (see 8 above). The idea of trying to strike the right balance seems to be uncontroversial, though not everyone will agree, perhaps, on where it should be struck.