

**Questionnaire in advance of Treasury Committee hearing  
Richard Sharp**

*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?*

- I am non-Executive Chairman of Huntsworth plc, a quoted media company which owns Citigate a financial PR company.
- I am Chief Executive of DII, a private investment company.
- I am a non-Executive Director of Oncimmune, a private cancer diagnostic company.
- I am a non-Executive Director of International Rescue Committee, an NGO which contracts with DFID.
- I am a member of the Mayor of London's Panel of Economic Advisors.
- I am a Director for the Centre of Policy Studies.
- My investments include a long-term shareholding in a Chinese bank. I have disclosed my investments to the Bank and I along with FPC members must seek approval for trading in any financial instruments.

These were agreed with the Bank of England on my appointment and I will consult with the Bank before taking on any other commitments.

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

I have been a practitioner in financial services for over 30 years. In the first instance I worked at JP Morgan as a Lending Officer and subsequently in its investment banking operations. Secondly I worked for Goldman Sachs for 23 years leading businesses in capital markets and derivatives, fixed income, investment banking and the principle investment area (private equity). I remain a practitioner in the financial industry as Chief Executive of DII, a private investment company.

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

Yes.

*Q4. Why have you decided to join the FPC?*

I believe a successful financial services industry is of vital importance for the UK. I believe in public service and I believe that my experience and judgements should contribute to the effectiveness of the FPC in its task of securing financial stability for the UK.

*Q5. Please explain how your experience to date has equipped you to fulfil 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?*

As explained above I have a sophisticated and broad understanding of the financial services industry. Throughout my career I have been an independent thinker and have been prepared to be contrarian in my financial investing strategy – investing when others have been unprepared to do so to make successful investments and refraining from investing at times of exuberance to avoid losses. I believe these qualities of mine would be helpful in contributing to decisions of macroprudential supervision which may require subjective judgements which may counter prevailing conventional wisdom.

I am not a technical expert in bank capital and banking or insurance regulation. I am presently receiving an education from the Bank of England concerning the details of bank regulation and the application of macro and microprudential tools and regulations.

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

N.A.

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

- Identifying and evaluating the tail risks that could threaten financial stability.
- Identifying the systemic fault lines in the financial system that could perpetuate a crisis in the event of these risks crystallising and judging the probability of such events occurring.
- Simultaneously balancing the need to build resilience against these risks with the impact this may have on the effectiveness of government policy for growth and employment.
- This balance may be particularly challenging in the near term whilst the financial system is transitioning to a more resilient status.

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

- The instability of the Euro Area still presents a significant risk to UK financial stability as there is potential for contagion given the vulnerabilities in the financial system, e.g. due to the presence of systemically important financial institutions that could be severely impacted by a disorderly outcome for the monetary union, its sovereigns and banks.
- Given the on-going environment of low interest rates and flat yield curves, there is also a risk that a rise in longer term interest rates has a disorderly impact on the financial system.
- Operational risk at systemically important institutions.

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

- A key positive has been the groundwork to develop the role, processes and tool kit behind a macroprudential regulator, that was a key gap in the pre-crisis regulatory architecture.
- In particular this can allow an improved coordination between micro- and macroprudential regulation to be fostered.
- In terms of specific policy achievements of the Committee, the FPC recognised that UK banks may have been holding buffers of liquid assets well beyond their regulatory requirements with a potential drag on lending to the real economy and their policy actions have acted to reduce this.
- The FPC's recent recommendations on capital have highlighted the issues in, and given clear guidance on, what capital raising will be necessary balancing the desire to improve resilience of the financial system and putting it in a better position to provide key financial services to the real economy, e.g. the provision of credit.
- There has been some criticism of the FPC's consistency of communication from within the Financial Services Sector. The FPC needs to strike the right balance between the consistency of messages which are necessary for stability and the transparency required to reflect different views held by FPC members.

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

- It remains early days for the Committee, and indeed for macroprudential regulation as a concept, so it will take time to get good traction with a communications policy around these issues - not least given public understanding of macroprudential policy is presently low, especially relative to that of monetary policy.

- There have been some teething issues with how policy has been communicated. The mixed media and analyst reaction to the recent capital recommendations is an example of this, particularly the varying views on their likely impact for economic growth.
- The Committee have two good vehicles via which to explain their policy stance and decisions in the Financial Stability Report as well as the record of meetings which gives details on the range of views across the Committee. These may also need to adapt as the communication strategy of the Committee evolves to ensure the mistakes of the pre-crisis publications are not repeated with the Bank warning of various risks but with little impact.
- Speeches, media interviews and appearance before the TSC will continue to be an important tool to improve public understanding, as well as regular interaction with key stakeholders in the financial sector.

11. *What is your assessment of the macro-prudential 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?*

- I am beginning to understand the impact of the macroprudential tools. My preliminary view subject to further education is that:
- The current directive tools are very useful.
- It would also be useful to have a tool to adjust the (minimum) leverage ratio for the UK banks.
- There may also be merit in developing other capital related tools related to banks' derivatives exposures, e.g. minimum capital requirements in relation to banks' derivatives books.

12. *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?*

- Unfortunately the future cannot be gauged precisely by mechanistic calculations around indicators. However:
- The indicators are useful to the extent they remind the Committee to regularly look at areas where pressures have built up in the past.
- They can also support accountability and predictability of policy if they help support the judgements, such as when using the current directive tools of the FPC.
- Indeed particularly important ones relate to the build-up of risks from the amount of credit in the economy (e.g. credit to GDP ratio) and the property sector.
- For example, other useful indicators of property market exuberance might be the pace of growth in real property prices, the terms on which mortgages are being extended (eg loan-to-value ratios) and measures of housing affordability. It would also be useful to examine these in the foreign property markets where the UK banks have material exposures.
- Furthermore, these indicators should continue to evolve as our understanding of the risks to financial stability improves and the data available develops.

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

- I believe the role of the macroprudential regulator is of great value in an environment where national financial stability can be influenced by domestic bubbles or overseas market dislocation which, through contagion, could impact UK financial stability.
- The FPC secondary remit is relevant because domestic economic growth can reinforce UK financial stability particularly in the context of an undercapitalised financial system and an over leveraged national debt burden.
- The FPC may also prove to provide useful tools for the Bank of England to supplement MPC tools in seeking to promote balanced economic growth.
- The structure of the FPC providing overlapping membership with other essential committees is clearly desirable.