



BANK OF ENGLAND

News release

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Instruments of Macroprudential Policy - Discussion Paper

In a discussion paper published today, Bank of England and Financial Services Authority staff provide a detailed analysis of a range of macroprudential tools that the Financial Policy Committee (FPC) discussed at its September meeting. The Committee is seeking feedback on this analysis.

The proposed powers of the permanent FPC include an ability to make recommendations to the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and other bodies. In addition, it is proposed that the Committee should have powers of direction through which it could require specific actions by the PRA and FCA.

The FPC judged at the time of its September meeting that to fulfil its proposed statutory responsibilities it would require a narrow range of directive powers over a set of specific macroprudential tools that could help it tackle key sources of systemic risk. The Committee identified three broad categories of policy tool over which it thought it might initially need to have directive powers:

- the balance sheets of financial institutions;
- the terms and conditions of transactions in particular financial markets; and
- market structures.

This discussion paper sets out analysis provided by Bank and FSA staff to the FPC to facilitate their discussions. It explains how the considered tools might be helpful in meeting the FPC's objectives, assessing empirical evidence on their likely effectiveness, and describing key practical considerations including the potential for leakage and regulatory arbitrage. The Committee is seeking feedback on this interim analysis ahead of its March 2012 meeting. In particular, it would welcome views on:

- Are there any additional tools that the Committee should be considering?
- Has the Committee focussed on the right instruments in its preliminary discussions at its September meeting?
- Are the criteria that are set out to assess the merits of different tools sensible and sufficient?

Commenting on the paper, the Governor of the Bank of England, Mervyn King, said: “The FPC has an important job to do. But for it to be a successful body, with the legitimacy to take actions to head off risks to our financial system, it is critical that it engages with interested parties on how macroprudential policy should be formulated and put into effect. This discussion paper is an important part of that process.”

Notes to Editors

1. Comments should be should be sent to macroprudentialdp@bankofengland.co.uk by 10 February 2012.

Key Resources

Instruments of Macroprudential Policy

Discussion Paper, December 2011