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News release

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What is the FPC for? – remarks by Alastair Clark

In a speech to the Society of Business Economists' Annual Conference, Alastair Clark – member of the interim Financial Policy Committee (FPC) and Senior Adviser for Financial Stability, HM Treasury – explains how the lessons from the financial crisis are being reflected in changes to UK regulatory arrangements, and discusses some of the issues that have arisen in developing a framework for the FPC.

He begins by reviewing the actions taken in the UK to address the weaknesses in regulation exposed by the crisis. He highlights the regime now in place to resolve a failing bank and the greater clarity about 'who's in charge' in a crisis. He also notes the changes being made to the organisation and approach to supervision of individual institutions and recognition of the fact that there needs to be greater attention to system-level developments in focussing micro-supervision. That has led to the creation of the FPC, which is currently operating in interim form.

Alastair Clark outlines the objective of the FPC. He explains that the FPC is not a vehicle for managing crises. "It is the fire prevention officer not the fire brigade." Neither will it second-guess micro-regulatory judgements made by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The role of the FPC is to conduct macroprudential regulation: "...to monitor, analyse and respond to risks in the financial system as a whole". This objective requires the FPC both to respond to risks that are building in the system, and to put in place structural features that make it less prone to the build-up of risks. But he warns that this wide remit could make quantitative monitoring of the FPC's performance and success more difficult. The FPC is also charged with ensuring that it does not harm economic growth by consistently erring on the side of excessive caution when faced with potential threats to financial stability. But, as he points out, "...to go further and seek to promote credit growth separate from any financial stability considerations is a different matter."

Turning to the FPC's instruments and powers, Alastair Clark explains that there is relatively little empirical evidence on the effectiveness of potential instruments. That has led to the FPC taking a cautious approach in reviewing the instruments it might use. It has also led to a tiered approach in its interventions. The most informal channel is warnings and guidance provided in public statements, which can highlight issues and condition expectations. More formally, the FPC can issue recommendations, in principle to anyone, which

Alastair Clark notes may be especially useful to address structural issues. The FPC will also be able to make recommendations to the PRA and FCA regulators on a “comply or explain” basis. And finally, the FPC will be able to issue directions to the PRA and FCA with which they must comply, but only in relation to the – initially probably limited – set of instruments over which it has explicitly been given a power by Treasury Order.

Finally Alastair Clark raises three general points regarding the operation of the FPC. First, he stresses that structural features of the financial system as demonstrated by, for example, its increased interconnectedness, are a legitimate concern for the Committee. Second is the need to “...strike the right balance between, on the one hand, encouraging banks to strengthen their financial position and, on the other, avoiding any undue constraint on the availability of credit”, a topic that has been heavily discussed by the FPC. This raises in turn the general question of sequencing policy actions in pursuing parallel but separate policy objectives. Third, in terms of the relationship between the FPC and the MPC, he suggests that the need to give systemic financial stability a higher profile argues for maintaining separate identities and Committees, with each having “...a mandate to address a distinct objective and with accountability for doing so.”

In conclusion, Alastair Clark says that “The FPC is not, and was never intended to be, the all-singing, all-dancing, one-stop-shop for delivering financial stability. And it is important we make that clear. But it can make an important contribution to achieving that goal.”

Key Resources

What is the FPC for? – remarks by Alastair Clark (75KB)
http://www.bankofengland.co.uk/publications/Documents/speeches/2012/speech575.pdf
Remarks by Alastair Clark