BANK OF ENGLAND

News release

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News Release - The Financial Policy Committee's powers to supplement capital requirements: A Draft Policy Statement

The interim Financial Policy Committee (FPC) is today publishing a draft Policy Statement explaining the planned powers for the FPC to give directions setting extra capital requirements for the purposes of financial stability. The statutory FPC will be required to publish such a Policy Statement. A draft is being published today to assist Parliament's scrutiny of forthcoming draft secondary legislation.

The government is planning two such powers: the countercyclical capital buffer (CCB) and sectoral capital requirements (SCRs). The CCB supplements headline capital requirements. The SCR supplements capital requirements on exposures to specific sectors judged to pose a risk to the system as a whole.

The draft Policy Statement relates to these powers of direction. It describes the circumstances in which the FPC might use the powers, taking account of their likely impact on the resilience of the financial sector and growth. It also describes some of the indicators the FPC will routinely review to help inform its decisions.

In addition to these powers of direction, the FPC will also have powers to make recommendations. Where the recommendation is to the Prudential Regulation Authority or the Financial Conduct Authority, the relevant regulator may be required by the FPC to comply or else explain publicly its reasons for not doing so. The draft Policy Statement is not about these wider powers.

The draft Policy Statement describes the circumstances when the FPC might increase capital requirements using these powers and the circumstances when it might then release these additional buffers of capital.

The FPC will draw on a wide range of analysis to inform its decisions. No single set of indicators can ever provide a perfect guide to systemic risks or the appropriate policy responses. The draft Policy Statement describes an initial set of core indicators that the Committee will routinely review. The FPC will regularly publish these indicators and draw on them in explaining its decisions. They will be supplemented by inputs from bank supervisors, securities regulators and market intelligence.

Notes to Editors

1 Under the Financial Services Act (2012), the FPC's primary objective is to identify, monitor and take action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. Subject to achieving its primary objective, its actions should support the Government's economic policy, including for growth and employment.

2 The FPC will have two main sets of powers. The first is a power to make Recommendations. In the case of recommendations to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) recommendations may be on a comply or explain basis. Should the regulators decide not to

implement recommendations made on a comply or explain basis, they are required by the legislation to explain publicly their reasons for not doing so. This document is not about this first set of powers.

3 The other set of powers is to give Directions to the PRA or FCA to adjust specific macroprudential tools. The Government has consulted on its intention to give the FPC Direction power over sectoral capital requirements (SCRs).   It has proposed making the FPC responsible for policy decisions on the Basel 3 countercyclical capital buffer (CCB) as to be set out in the new EU Capital Requirements Directive. The FPC will set the components of the CCB associated with UK exposures. The components of the CCB associated with foreign exposures will be set by the relevant overseas authorities. In addition to these powers, the Government has stated its intention to provide the FPC with Direction powers over a time-varying leverage ratio tool, but no earlier than 2018 and subject to a review in 2017 to assess progress on international standards.

Key Resources

The FPC's powers to Supplement Capital Requirements