Publication date: 1 July 2013

RECORD OF THE FINANCIAL POLICY COMMITTEE MEETING

18 JUNE 2013

This is the Record of the Financial Policy Committee meeting held on 18 June 2013.

It is also available on the Internet:
http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2013/record1307.pdf

The Financial Policy Committee (FPC) was established under the Bank of England Act 1998, through amendments made in the Financial Services Act 2012. The legislation establishing the FPC came into force on 1 April 2013. An interim FPC operated from 2011 until March 2013. The objectives of the Committee are to exercise its functions with a view to contributing to the achievement by the Bank of England of its Financial Stability Objective and, subject to that, supporting the economic policy of Her Majesty's Government, including its objectives for growth and employment. The responsibility of the Committee, with regard to the Financial Stability Objective, relates primarily to the identification of, monitoring of, and taking of action to remove or reduce, systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC is established as a sub-committee of the Bank of England's Court of Directors.

The FPC will next meet on 18 September 2013 and the Record of that meeting will be published on 1 October.

RECORD OF FINANCIAL POLICY COMMITTEE MEETING HELD ON 18 JUNE 2013

At its meeting on 18 June 2013, the Financial Policy Committee agreed to make the following recommendations, including a restatement of an existing recommendation of the interim Committee on Pillar 3 disclosures:

1. **The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), with other Bank staff, should provide an assessment to the FPC of the vulnerability of borrowers and financial institutions to sharp upward movements in long-term interest rates and credit spreads in the current low interest rate environment. They should each report back to the FPC in September 2013.**
2. **In assessing the liquidity of banks and building societies, the PRA should employ, among other measures, the Liquidity Coverage Ratio (LCR) as defined in the EU's implementation of the Basel standard. The minimum requirement should be set at an LCR of 80% until 1 January 2015, rising thereafter to reach an LCR of 100% on 1 January 2018. The PRA should consider whether any additional requirements are needed where there are idiosyncratic liquidity risks not captured by the LCR framework or where the adjustments to capital positions described in the existing capital recommendations have not been implemented.**
3. **The PRA should continue to work with the banking industry to ensure greater consistency and comparability of the Pillar 3 disclosures of the major UK banks and building societies, including reconciliation of accounting and regulatory measures of capital.**
4. **The PRA should ensure that all major UK banks and building societies comply fully with the October 2012 recommendations of the Enhanced Disclosure Task Force (EDTF) upon publication of their 2013 annual reports.**
5. **The PRA should assess the feasibility of the major UK banks and building societies calculating their regulatory capital ratios under end-point Basel III definitions using the standardised approach to credit risk. The PRA should report back to the FPC for its 2013 Q4 meeting.**
6. **HM Treasury, working with the relevant government agencies, the PRA, the Bank's financial market infrastructure supervisors and the FCA should work with the core UK financial system and its infrastructure to put in place a programme of work to improve and test resilience to cyber attack.**
7. **Working with other authorities and bodies, the Bank and FCA should together promote the development of credible contingency plans in the event that Libor or other interest-rate benchmark quotes became unavailable. They should report to FPC by September 2013 on any perceived gaps in these contingency plans and potential solutions.**[1]

Recommendations 1-5 were made on a 'comply or explain' basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012).

[1] The text in this paragraph was omitted from the version of the Record that was initially published on 1 July 2013. The Committee agreed at its September 2014 meeting to release this text, for the reasons set out in the Record of that meeting.

The Committee also reaffirmed a number of recommendations previously made by the interim Committee, where action is underway; a summary is provided in paragraphs 8-16 of this Record.

In making the recommendations, the Committee considered its duties under the Bank of England Act 1998. Section 5 of the June 2013 *Financial Stability Report* sets out an explanation of the reasons for the Committee deciding to exercise its powers in the way they are being exercised, together with the Committee's reasons for believing that the use of its powers are compatible with such duties. Save as set out in that section, it was the opinion of the Committee that it was not reasonably practicable to include in its explanations estimates of the costs and benefits arising from these recommendations.

The Committee discussed its response to the remit and recommendations that the Chancellor had set out to the Committee in his letter and paper of 30 April, before turning to its view of the outlook for financial stability.

HM Treasury's 'Remit and Recommendations for the Financial Policy Committee'

1. On 30 April, the Chancellor had sent to the Committee a letter and paper setting out the Government's economic policy and a series of recommendations, under sections 9E(1) of the Bank of England Act 1998, as amended by the Financial Services Act 2012 ('the Act'). The Committee took note of the Government's economic policy, including its objectives for growth and employment, and discussed its response to each of the recommendations.

2. In discussing the recommendations on the interaction between monetary policy and macroprudential policy, the Committee recognised that its actions could have implications for the objectives of the Monetary Policy Committee (MPC) and vice versa. Members noted that, were the Committee's actions to have an effect on the path of aggregate demand in the short-run, the MPC would normally seek to mitigate those effects so as to continue to meet its inflation target in the medium term. One member wanted to avoid giving the impression that the Committee would not weigh fully the possible direct effects of its actions on its secondary statutory objective independent of any monetary policy response.

3. The Committee agreed that, in relation to each of the recommendations from the Chancellor, it had either taken action in accordance with the recommendation or intended to act in accordance with it. It therefore agreed its response to the Chancellor, which was subsequently published on 26 June.

The macroeconomic and financial environment

4. The Committee reviewed financial system and economic developments, as described in the June 2013 *Financial Stability Report* and summarised below.

5. For much of the period since the previous *Report*, prices of risky assets had risen and balance sheets across the financial system had been strengthened. But in the weeks prior to the Committee's meeting, asset prices had fallen and financial markets had been volatile, reflecting shifting expectations of the path of monetary policy in some of the major advanced economies.

6. In the Committee's view, the outlook for financial stability was still clouded by risks from a weak and uneven global recovery and imbalances in the euro area. Moreover, although interest rates had risen of late and credit spreads widened, in general rates and spreads remained low by historical standards. Risks could crystallise if global long-term interest rates were to continue rising sharply from current still historically low levels, or if credit spreads were to widen substantially. Further out, risks could accumulate if a search for yield were to intensify and if assets were to become progressively mispriced.

7. The Committee also noted that market participants had increasingly highlighted concerns about operational risk, including threats of cyber attack. Confidence in the financial system remained somewhat fragile. Credit growth had been weak, but indicators of credit supply were improving slightly.

Previous policy recommendations

8. The Committee reviewed the progress made in achieving the recommendations that had been issued by the interim Committee. Section 4 of the June 2013 *Financial Stability Report* sets out the conclusions in detail; a summary is given below.

9. <u>EU legislation</u>. The Committee agreed that the recommendation made to HMT in September 2011, which sought to ensure that EU legislation did not constrain the Committee's use of macroprudential policy instruments, had been implemented and therefore could be closed. Since the Committee's meeting in March, the European Parliament had approved the final version of the Capital Requirements Directive and Regulation (CRD4/CRR) and this had provided sufficient discretion for the Committee to be able to use its powers of Direction. The Committee noted, however, that it might be necessary to issue a similar recommendation in the future, depending on progress in relevant negotiations on other potential macroprudential tools that were not covered currently by CRD4/CRR, notably the leverage ratio.

10. <u>Disclosure of leverage ratios</u>. The Committee noted that the largest UK banks had each published a leverage ratio as part of their 2012 annual reports and agreed that the recommendation could be considered implemented and closed. It noted, however, that there had been some variations in details of the reporting, but that the PRA had asked relevant banks to address these inconsistencies. The Committee reiterated the importance of this remaining as part of banks' disclosures.

11. Mitigating risks from the euro area. The Committee noted that banks had reduced their exposures to vulnerable euro-area countries, both directly and indirectly through a reduction in counterparty exposures to core euro-area banks that had in turn reduced their exposures. But progress by banks appeared to have slowed recently and the Committee remained concerned about the potential currency risk that could arise from any differential redenomination of local assets and liabilities. Given that further action in this area was warranted, the Committee reaffirmed the recommendation. It also noted that the application of the stress testing framework it intended to develop ought in due course to help in assessing whether sufficient action had been taken.

12. Pillar 3 disclosures. The Committee noted the progress that UK banks had made in improving their 2012 Pillar 3 disclosures, including relative to international peers. But it wanted to see further improvements in the consistency and comparability of such disclosures. It therefore reaffirmed the intention behind this recommendation, updating it as described later in this *Record*.

13. Capital adequacy. Five recommendations on capital adequacy had been issued in March 2013. The PRA Board had adopted the recommendations and had conducted firm-by-firm reviews of eight major UK banks and building societies in order to implement them. The PRA reported on the results of these reviews and shared with the Committee a draft statement on the results that was subsequently published on 20 June. Based on this report, the Committee judged that implementation of the March recommendations was under way and reaffirmed all but one of the recommendations; the first, on how the PRA should assess current capital adequacy, was considered implemented as it had become the basic framework in PRA supervision, and therefore closed. The Committee also agreed to release text previously omitted from the Record of the November 2012 meeting in relation to this work; the background to this is outlined in Section 4 of its June 2013 *Report*.

14. Stress tests. The Committee had a first discussion of a set of design principles that had been developed by Bank, including PRA, staff, in response to the March 2013 recommendation to develop proposals for regular stress testing of the UK banking system. Those principles are set out in Section 5 of the June 2013 *Report.*

15. The Committee reaffirmed the March recommendation and confirmed its intention to embed a permanent stress-testing framework as one tool to assist the authorities in forming a forward-looking view of the capital adequacy of the UK banking system. It agreed that the design principles should inform the next stage of the work, though these would be subject to adjustment

after further discussion. There were a range of views among members on what precisely should be disclosed from a future stress test, which would require careful consideration.

16. The Committee agreed that a Discussion Paper should be issued in the autumn, with a view to the Committee being able subsequently to endorse a framework for use in 2014.

17. Private recommendation on contingency planning: The Committee reaffirmed the private recommendation to HM Treasury from September 2011 on contingency planning, noting that this was likely to remain open until the European Recovery and Resolution Directive was agreed and enabling legislation was in place.[2]

Improving the resilience of the financial system

18. The Committee considered further actions that it might take to improve the resilience of the financial system, in light of the current conjuncture and the progress made on its previous recommendations.

Risks from low interest rates and the search for yield

19. The Committee discussed two particular sources of risk from current exceptionally low and persistent long-term interest rates, noting the abrupt correction in asset prices that had taken place ahead of the meeting:

a. Exposure to an abrupt and / or substantial rise in long-term interest rates, which could occur directly through exposures to asset prices or indirectly through counterparty credit risk. An increase in interest rates could also affect the ability of households and companies to service their debt;

b. Interest rates remaining low but investors underestimating, and therefore demanding insufficient compensation for bearing, risk or becoming exposed to risks with which they were unfamiliar, as part of a 'search for yield' in response to persistently low rates.

[2] The text in this paragraph was omitted from the version of the Record that was initially published on 1 July 2013. The Committee agreed at its June 2014 meeting to release this text, for the reasons set out in the Record of that meeting.

20. The Committee noted that in both cases, the impact if these risks were to crystallise would depend on the degree to which rises in asset prices had been accompanied by increases in leverage or liquidity risk. An assessment would need to cover any embedded leverage via derivatives contracts. And there would be a need to attend to any concentration of risk in particular sectors.

21. There was a range of views on the possible systemic importance of these risks. Some members noted that a substantial reversal of long-term interest rates would be likely to occur alongside an improvement in the economy, which might ameliorate some of the impact of the rise. And the Committee should be careful not to discourage the shift into riskier assets in the current environment, which was an intended consequence of monetary policy.

22. Other members were concerned that there could be a sharp reduction in market liquidity in the event that these risks crystallised. There was potentially more leverage in the system than it was possible to identify currently. Even if further investigation suggested that banks had hedged adequately against interest rate risk, non-bank counterparties that were providing the hedge could be exposed. And there was a broader need to see whether the non-bank financial sectors were vulnerable to these risks. Some of these concerns were heightened given the increased volatility in financial markets in the days prior to the meeting.

23. The Committee identified a number of challenges in trying to assess the exposure of banks and other financial institutions to these risks. The extent of banks' exposure to interest rate risk was not, in its view, fully understood. The build-up of risks in the non-bank financial sector, and the extent to which risk was concentrated in some potentially vulnerable sectors, was even more difficult to monitor. The Committee felt that it needed to have a better understanding than was available from the current set of data on where the risks lay, and on where the points of vulnerability might be. More work was needed on that now.

24. In the medium term, this was another risk which could be assessed using the stress-testing framework.

25. **Recommendation 1: The FCA and the PRA, with other Bank staff, should provide an assessment to the FPC of the vulnerability of borrowers and financial institutions to sharp upward movements in long-term interest rates and credit spreads in the current low interest rate environment. They should each report back to the FPC in September 2013**. The

Committee made this recommendation on a 'comply or explain' basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012).

Implementing the Liquidity Coverage Ratio

26. The Committee discussed whether there were macroprudential considerations that the PRA should take into account when deciding how to implement the internationally agreed Liquidity Coverage Ratio (LCR) in the UK. EU implementation required banks to meet a minimum LCR ratio of 60% by 1 January 2015, rising to 100% by 1 January 2018.

27. The Committee noted that, in aggregate, UK banks began above a 100% LCR. UK banks had built up liquid asset buffers in recent years, reflecting steps taken by the microprudential supervisors to implement a liquidity regime since the start of the crisis and the effects of quantitative easing, which tended to concentrate liquid assets, in the form of central bank reserves, in the banking sector. In June 2012, the interim Committee had recommended that there could be some relaxation in FSA liquidity requirements given the enhanced availability of central bank liquidity facilities.

28. The Committee noted the reasons why a lower minimum LCR requirement might make sense initially. Implementation of its capital recommendations should improve banks' ability to fund themselves at longer tenors and at lower cost, which, other things equal, would improve banks' resilience to liquidity risk. And banks continued to have access to central bank liquidity facilities, such as the Bank of England's contingent Extended Collateral Term Repo Facility. These considerations pointed towards banks being able to hold lower buffers of liquid assets, before building them up to the 100% standard.

29. But there were also risks to the resilience of the banking system if liquidity requirements were reduced too much: liquid assets provided banks with self-insurance against liquidity shocks, and that self-insurance was important given the continuing exceptional risks to the financial environment and while banks were transitioning to higher capital requirements.

30. The Committee concluded that as a general policy, and so subject to microprudential supervisory judgements on individual institutions, setting a minimum LCR requirement of 80% until 1 January 2015, rising to 100% by 2018, would provide the banking system with greater flexibility and could support economic recovery without compromising resilience. The impact of

looser liquidity requirements on credit conditions was uncertain but by removing possible impediments to an expansion of credit supply, the Committee's intention was to give the banking system more flexibility to lend. Furthermore, banks that had moved to higher capital levels should be allowed to make most use of the loosening in liquidity requirements.

31. **Recommendation 2: In assessing the liquidity of banks and building societies, the PRA should employ, among other measures, the Liquidity Coverage Ratio (LCR) as defined in the EU's implementation of the Basel standard. The minimum requirement should be set at an LCR of 80% until 1 January 2015, rising thereafter to reach an LCR of 100% on 1 January 2018. The PRA should consider whether any additional requirements are needed where there are idiosyncratic liquidity risks not captured by the LCR framework or where the adjustments to capital positions described in the existing capital recommendations have not been implemented.** The FPC made this recommendation on a 'comply or explain' basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012).

Structural vulnerabilities affecting financial stability

Disclosure

32. The Committee noted recent improvements in UK banks' disclosures: UK banks had provided additional information on leverage and increased the usefulness of their Pillar 3 disclosures, in response to the interim Committee's recommendations, and were ahead of many of their international peers in implementing the recommendations in the October 2012 report of the Enhanced Disclosure Task Force (EDTF) – an industry group that was aiming to improve the quality, comparability and transparency of risk disclosures.

33. The Committee felt that efforts to ensure greater comparability across firms' Pillar 3 disclosures should continue. It therefore reaffirmed the intention of the earlier recommendation in this area, restating it to recognise the progress that banks had already made and to make the recommendation to the PRA.

34. The Committee also felt that there were significant benefits from banks implementing the full set of EDTF recommendations, in particular because doing so would help to build market confidence in their resilience. The Committee placed great weight on major UK banks and

building societies using the EDTF's templates, to promote consistency and comparability of disclosures. Given firms' planned compliance with most of the recommendations, and given that the EDTF was an industry initiative, the marginal cost of requiring full compliance with these recommendations was likely to be small in comparison to the benefits.

35. But the Committee noted continuing concern about risk-weighted assets (RWAs), even if the EDTF recommendations were implemented. Three related issues with RWAs had been identified previously: (i) falling investor confidence in reported RWAs; (ii) opacity of RWA calculations, reducing the efficacy of market discipline; and (iii) large variability in model-derived RWAs, raising concerns over the capital adequacy of firms that estimated lower risk weights for a given risk.

36. The Committee discussed whether there were any further disclosures that could help comparisons of capital and so increase the incentives for prudent calculation of risk weights. One readily available point of comparison for model-derived RWAs for credit risk was the Basel III standardised approach. The Committee felt that it might be valuable for major UK banks to calculate, in addition to model-based calculations, their regulatory capital ratios using the standardised approach to credit risk and for this to be available to the microprudential supervisors and to the Committee. It noted that a number of regulators in other countries had sought to make banks calculate RWAs, fully or in part, on a standardised basis. The Committee requested further work to assess the costs and benefits of doing so.

37. The Committee also noted the importance of the requirement under CRD4 for banks to undertake an annual Hypothetical Portfolio Exercise specified by the European Banking Authority. The results of these exercises would be reported to the PRA and the PRA had the ability both to influence the scope of these exercises and to undertake exercises of its own. It would be important to ensure that these exercises in due course covered retail and trading book portfolios, as well as portfolios of corporate, bank and sovereign exposures.

38. **Recommendation 3: The PRA should continue to work with the banking industry to ensure greater consistency and comparability of the Pillar 3 disclosures of the major UK banks and building societies, including reconciliation of accounting and regulatory measures of capital.** The Committee made this recommendation on a 'comply or explain' basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012).

39. **Recommendation 4: The PRA should ensure that all major UK banks and building societies comply fully with the October 2012 recommendations of the Enhanced Disclosure Task Force (EDTF) upon publication of their 2013 annual reports.** The Committee made this recommendation on a 'comply or explain' basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012).

40. **Recommendation 5: The PRA should assess the feasibility of the major UK banks and building societies calculating their regulatory capital ratios under end-point Basel III definitions using the standardised approach to credit risk. The PRA should report back to the FPC for its 2013 Q4 meeting.** The Committee made this recommendation on a 'comply or explain' basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012).

Operational risk

41. The Committee noted that financial stability could in principle be threatened not only by financial risk but by operational risks, if they were sufficiently severe.

42. In that context, the Committee discussed recent concerns over the robustness of reference rates in financial markets that had been prompted by enforcement action for misconduct over the setting of Libor. Falls in market activity in unsecured interbank markets had reduced the availability of data underpinning these reference rates.

43. A number of initiatives were currently in train to reform benchmark indices. In the United Kingdom, the Wheatley Review of Libor had set out a plan for reform of industry-led Libor rates. As part of the overall reform, the Government had introduced regulation of activities in relation to benchmark rates in the Financial Services Act 2012, and the Financial Conduct Authority had introduced a new regulatory regime which outlined requirements for the administrators of Libor and banks submitting to Libor. A process was under way to nominate a new Libor administrator which, it was hoped, would be completed over the summer.

44. The Committee also noted international initiatives in this area. But, given that these various initiatives were likely to take time to bear fruit, it would be important to monitor any implications for stability and for market participants to develop contingency plans.

45. The Committee agreed that it was important to promote development of contingency plans that would be credible in the event that Libor or other interest-rate benchmark quotes became unavailable. Whether such plans would be needed, and the degree of their effectiveness, was uncertain. On the one hand, some interest-rate benchmark quotes had been withdrawn recently with little impact. And so far, UK banks had remained on Libor panels. On the other hand, the disruption to financial stability could be large in the event that Libor became unavailable, given both the scale of contracts in which Libor was still used as a reference rate and the lack of clarity on the legal position of contracts should Libor or other benchmarks become unavailable.

46. In addition, the Committee felt that this was the area where there had been limited progress internationally, and that market participants and the authorities needed to be ready to respond if rates became unavailable, rather than waiting until any dislocations emerged. The Committee judged that developing contingency plans would also support medium-term work to develop alternative credible benchmark indices under the auspices of the Financial Stability Board. That work could usefully involve understanding how market participants chose the relevant benchmark rate in their contracts, particularly for derivatives contracts.

47. **Recommendation: Working with other authorities and bodies, the Bank and FCA should together promote the development of credible contingency plans in the event that Libor or other interest-rate benchmark quotes became unavailable. They should report to FPC by September 2013 on any perceived gaps in these contingency plans and potential solutions**.

48. The Committee on balance decided not to publish this recommendation, as permitted by Section 9U(8)(b) of the Act. It felt that publication of the recommendation at this stage was against the public interest, because there was a risk of precipitating the problem that the recommendation was seeking to avoid. It was not possible to agree now the date at which the recommendation would be published. But the Committee would keep it under review and reflect initially in September when the Bank and FCA reported back on progress in implementing the recommendation, including, importantly, on any perceived gaps in contingency plans.[3]

[3] The text in this and the preceding three paragraphs was omitted from the version of the Record that was initially published on 1 July 2013. The Committee agreed at its September 2014 meeting to release this text, for the reasons set out in the Record of that meeting.

49. Another source of operational risk, which had been gaining increasing attention in the market, was of cyber attack. The dependence of major banks and financial market infrastructure on highly complex information technology (IT) systems made them potentially vulnerable to cyber attack, where an individual or group sought to exploit vulnerabilities in IT systems to disrupt services or for financial gain. Such attacks were increasing in frequency and sophistication. The Committee recognised that mitigating cyber attack was not a matter of systems enhancements alone but also required changes in processes and culture. All boards of financial institutions needed to consider their own arrangements to ensure effective management of cyber risk.

50. The Committee noted that progress had been made to reduce cyber risks. But it also considered it essential that the core UK financial system and its infrastructure continued to work towards improving its ability to withstand cyber attack and to test its resilience. As part of this, it would be important to consider the resilience of IT systems to cyber attack as part of business as usual management of operational risk. The authorities should continue to work with wider Government and the sector to improve understanding of the risks faced and to improve cyber security within the sector.

51. **Recommendation 6: HM Treasury, working with the relevant government agencies, the PRA, the Bank's financial market infrastructure supervisors and the FCA should work with the core UK financial system and its infrastructure to put in place a programme of work to improve and test resilience to cyber attack**.

Priorities for the rest of the year

52. The Committee briefly reviewed its work plan for the rest of the year. As well as the topics on which it had noted its interest in the June 2013 *Report* and requested further analysis in the second half of the year, it would also be receiving reports back on most of the recommendations that it had made or reaffirmed at the meeting. In addition, staff analysis was requested on the risks relating to the quantity and distribution of debt in the economy. And an update was requested from HM Treasury on the Help to Buy scheme. The Committee also intended to discuss issues relating to the regulatory perimeter in the second half of the year.

The following members of the Committee were present at the meeting:

Mervyn King, Governor
Paul Tucker, Deputy Governor responsible for financial stability
Andrew Bailey, Deputy Governor responsible for prudential regulation
Charles Bean, Deputy Governor responsible for monetary policy

Clara Furse
Andrew Haldane
Donald Kohn
Richard Sharp
Martin Taylor
Charles Roxburgh attended as the Treasury member in a non-voting capacity.

Martin Wheatley, Chief Executive of the Financial Conduct Authority, was unable to attend the policy meeting as he was overseas.

As permitted under the Bank of England Act 1998, as amended by the Financial Services Act 2012, Bradley Fried and Tim Frost were also present as observers in their role as members of the Oversight Committee of Court.

ANNEX: EXTANT FPC RECOMMENDATIONS

Each recommendation is listed with an identifier to allow ongoing tracking of progress. For example, '12/Q2/3' refers to the third recommendation made at the 2012 Q2 meeting.

Identifier	Recommendation
11/Q3/4(P)	The Committee made an initially private recommendation to HM Treasury that its contingency planning should be as comprehensive as possible and include arrangements for recapitalisation, and the restructuring of bank liabilities in circumstances in which their survival was threatened.[4]
12/Q2/3	The Committee recommended that banks work to assess, manage and mitigate specific risks to their balance sheets stemming from current and future potential stress in the euro area.
13/Q1/2	The PRA should take steps to ensure that, by the end of 2013, major UK banks and building societies hold capital resources equivalent to at least 7% of their risk weighted assets, as assessed on the basis described in Recommendation 13/Q1/1. Relative to that benchmark, major UK banks and building societies in aggregate currently have a shortfall in capital of around £25 billion.
13/Q1/3	The PRA should consider applying higher capital requirements to any major UK bank or building society with concentrated exposures to vulnerable assets, where there are uncertainties about assets not covered in the FSA's assessment of future expected losses or risk weights analysis, or where banks are highly leveraged relating to trading activities.
13/Q1/4	The PRA should ensure that major UK banks and building societies meet the requirements in Recommendations 13/Q1/2 and 13/Q1/3 by issuing new capital or restructuring balance sheets in a way that does not hinder lending to the economy. Any newly issued capital, including contingent capital, would need to be clearly capable of absorbing losses in a going concern to enable firms to continue lending.
13/Q1/5	The PRA should ensure that major UK banks and building societies have credible plans to transition to meet the significantly higher targets for capital and the leverage ratio that will come into effect in 2019 after full implementation of Basel III, the trading book review and surcharge for systemically important banks, and after HM Government's implementation of the ICB proposals, in ways consistent with sustainable expansion of the UK economy.
13/Q1/6	Looking to 2014 and beyond, the Bank and PRA should develop proposals for regular stress testing of the UK banking system. The purpose of those tests would be to assess the system's capital adequacy. The framework should be able to accommodate any judgements by the Committee on emerging threats to financial stability.
13/Q2/1	The FCA and the PRA, with other Bank staff, should provide an assessment to the FPC of the vulnerability of borrowers and financial institutions to sharp upward movements in long-term interest rates and credit spreads in the current low interest rate environment. They should each report back to the FPC in September 2013.
13/Q2/2	In assessing the liquidity of banks and building societies, the PRA should employ, among other measures, the Liquidity Coverage Ratio (LCR) as defined in the EU's

[4] The text in this paragraph was omitted from the version of the Record that was initially published on 1 July 2013. The Committee agreed at its June 2014 meeting to release this text, for the reasons set out in the Record of that meeting.

	implementation of the Basel standard. The minimum requirement should be set at an LCR of 80% until 1 January 2015, rising thereafter to reach an LCR of 100% on 1 January 2018. The PRA should consider whether any additional requirements are needed where there are idiosyncratic liquidity risks not captured by the LCR framework or where the adjustments to capital positions described in the existing capital recommendations have not been implemented.
13/Q2/3	The PRA should continue to work with the banking industry to ensure greater consistency and comparability of the Pillar 3 disclosures of the major UK banks and building societies, including reconciliation of accounting and regulatory measures of capital.
13/Q2/4	The PRA should ensure that all major UK banks and building societies comply fully with the October 2012 recommendations of the Enhanced Disclosure Task Force (EDTF) upon publication of their 2013 annual reports.
13/Q2/5	The PRA should assess the feasibility of the major UK banks and building societies calculating their regulatory capital ratios under end-point Basel III definitions using the standardised approach to credit risk. The PRA should report back to the FPC for its 2013 Q4 meeting.
13/Q2/6	HM Treasury, working with the relevant government agencies, the PRA, the Bank's financial market infrastructure supervisors and the FCA should work with the core UK financial system and its infrastructure to put in place a programme of work to improve and test resilience to cyber attack.
13/Q2/7(P)	Working with other authorities and bodies, the Bank and FCA should together promote the development of credible contingency plans in the event that Libor or other interest-rate benchmark quotes became unavailable. They should report to FPC by September 2013 on any perceived gaps in these contingency plans and potential solutions.[5]

In this list, the following recommendations were made on a 'comply or explain' basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012): 13/Q2/1; 13/Q2/2; 13/Q2/3; 13/Q2/4; 13/Q2/5.

[5] The text in this paragraph was omitted from the version of the Record that was initially published on 1 July 2013. The Committee agreed at its September 2014 meeting to release this text, for the reasons set out in the Record of that meeting.