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RECORD OF THE FINANCIAL POLICY COMMITTEE MEETING

18 SEPTEMBER 2013

This is the record of the Financial Policy Committee meeting held on 18 September 2013.

It is also available on the Internet:
http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2013/record1310.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. 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 20 November 2013 and the Record of that meeting will be published on 3 December.

RECORD OF FINANCIAL POLICY COMMITTEE MEETING HELD ON 18 SEPTEMBER 2013

At its meeting on 18 September 2013, the Financial Policy Committee made no new recommendations.

The Committee's review of its pre-existing recommendations is set out in this Record. A list of extant recommendations is given in Annex 1.

1. The Committee reviewed its assessment of the risks to financial stability and, in the light of that assessment, progress against the existing set of recommendations. The Committee also had an initial discussion of its future work priorities.

Risks to financial stability

2. Macroeconomic prospects for the major advanced economies had improved somewhat since the Committee's June 2013 meeting, supporting continued gradual repair of bank balance sheets. In the United Kingdom, growth had picked up in 2013 Q2 and forward-looking indicators, including surveys of household and corporate confidence, had also strengthened. To varying degrees, there was a similar picture in the rest of Europe, the United States and Japan. The advanced economies nevertheless remained a long way from full recovery. Committee members noted, in particular, risks in the euro area from continued underlying vulnerabilities in the periphery and uncertainties over future supervisory and burden-sharing arrangements for euro-area banks. There had also been market pressure on some emerging market economies, with countries with external vulnerabilities and high rates of inflation experiencing capital outflows as interest rates in many advanced economies rose.

3. The improvement in the outlook for growth in the advanced economies and the prospect of a reduction in the pace of asset purchases by the Federal Reserve had been key drivers behind financial market developments. Equity markets had risen, and there had been a significant increase in interest rates along the yield curve. There was a range of views amongst Committee members about the precise extent to which recent asset price movements had reflected changes in underlying economic conditions. But with, for example, UK medium-term nominal forward interest rates only a little below longer-term averages, financial market conditions so far appeared to be consistent with a steady improvement in developed economy growth prospects.

4. The timing and extent of the pickup in long-term interest rates since the Spring had taken some market participants by surprise, and had therefore provided a test of institutions' exposure to interest rate risk. While some firms with exposures to bond markets and emerging economies had experienced losses, so far the rise in interest rates had not led to dislocations in market functioning or a significant impact on financial institutions.

5. These results were consistent with an analysis of the sensitivity of borrowers and financial institutions to upward movements in long-term interest rates and credit spreads carried out by staff at the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the wider Bank in response to a recommendation by the Committee in June. Staff had not undertaken

a specific quantitative stress test, but had instead asked the largest banks and building societies, investment banks, hedge funds, asset managers and insurance companies to set out their own assessment of exposure to interest rate risk. That information had been supplemented with market intelligence, quantitative analysis, and discussion with other regulators and central banks. Taken together, that preliminary work had suggested that a moderate rise in long-term interest rates did not pose an immediate threat to major banks and insurance companies. But borrowers would become more exposed to an increase in interest rates were debt levels to rise. And counterparty classes with higher leverage or exposures to market liquidity risk or credit spreads were more affected, including: Real Estate Investment Trusts holding mortgage backed securities; hedge funds with trend-following strategies; life insurers, pension funds, mutual funds and Exchange Traded Funds with exposures to credit markets; and pension funds following liability-driven investment strategies, which were exposed to the risks of collateral calls on derivative contracts. Exposures of key intermediaries in the financial system to these counterparties nevertheless currently appeared limited.

6. The Committee agreed that it should not draw too much comfort from this preliminary work. First, firms had typically assumed only a moderate increase in long-term interest rates; but market rates could rise by significantly more as the recovery strengthened. To the extent that higher rates reflected stronger economic growth, the impact on the financial system might be relatively benign. But Committee members recognised that it was also possible that long-term interest rates might overshoot or rise for other reasons, with potentially greater consequences. Second, respondents had typically not considered potential amplification mechanisms working through the financial system. There had been a number of changes to the structure of the system since the financial crisis, such as a significant reduction in market making and warehousing capacity, a greater potential exposure to procyclical movements in collateral valuations, and an increasing role of non-bank intermediaries lying partly outside the regulatory perimeter. The authorities needed to work with market participants to ensure that the implications of these developments were factored into firms' risk management. And, third, the work had thrown up areas of uncertainty, including the potential sensitivity of commercial property portfolios to movements in short-term interest rates and the exposure of some intermediaries to shifts in credit spreads. A particular issue concerned gaps in the data available to the authorities on the risks that hedge funds were running through their derivatives activities, which meant there was substantial uncertainty over the amount of leverage these funds were employing.

7. The Committee agreed that further work was needed to improve the understanding of the authorities and firms on these points. First, Bank staff were asked to provide a clearer elaboration

of potential amplification effects under more severe increases in interest rates and credit spreads, and examine the scope for carrying out a 'reverse stress test' to establish more clearly the range of interest rate movements that might induce more serious instability. Building on this work, the PRA and FCA should seek to ensure that the boards of key financial firms developed a better understanding of these channels. Second, the FCA, together with staff across the Bank, would undertake further work to enrich the information available to the authorities on hedge funds in order that a more complete assessment of risks to financial stability could be made. And, third, a continued focus was needed on the potential for a renewed search for yield and any risks to stability that might be entailed.

8. The continued recovery of the UK banking sector had been associated with a further easing in credit conditions. Against that backdrop, and aided by a number of public policy measures, the recovery in the housing market appeared to have gained momentum and to be broadening. Mortgage approvals in July had been 30% higher than a year earlier and house prices had risen by 5% in the year to August – and by more in some parts of the country, particularly London. Recent forward-looking survey data showed how rapidly housing market expectations could respond to a recovery in consumer sentiment. And there was uncertainty about how rapidly housing supply would respond to any rise in demand. Nevertheless, housing activity and loan-to-value ratios on new mortgage lending remained below their historic averages; households' debt servicing costs were low; the ratio of house prices to earnings was at its level of a decade ago; and the Committee judged that there were few signs yet of house prices rising solely in anticipation of future price increases.

9. In view of that assessment, the Committee agreed that it would need to be vigilant to potential emerging vulnerabilities in the financial system. That meant, first, close monitoring of developments in the housing market and banks' underwriting standards. Second, it was important that the Committee should develop a deep analysis of the ways in which housing developments might affect financial stability. There were a number of potential feedback loops between economic developments, housing and financial stability – and Committee members noted the important role that housing had played in several past UK credit cycles. But not all movements in house prices necessarily had financial stability implications – for example if transactions were largely cash-financed, or if lenders had substantial capital to absorb any losses on mortgages. And, third, the Committee should review the range of tools that could be used to mitigate risks to financial stability, should that become necessary. Those tools included, amongst others, supervisory guidance on underwriting standards, sectoral capital requirements and recommendations to the regulators on tightening of affordability tests. The Committee agreed

that, if it became necessary to deploy its tools, they would be used in a way that was proportionate to the risks and consistent with a graduated response.

10. The Committee noted that, as part of the Monetary Policy Committee's (MPC) Forward Guidance announced on 7 August, the FPC had been asked to assess whether the stance of UK monetary policy posed a significant threat to financial stability that could not be contained by the substantial range of mitigating policy actions available to the FPC, the FCA and the PRA in a way consistent with their objectives. In line with the process set out in the MPC's Forward Guidance document, the FPC's assessment of this issue, together with the MPC's response to it, would henceforth be published no later than the minutes of the following MPC meeting.

11. The Committee agreed that, in light of its assessment of the current risks to financial stability, the stance of UK monetary policy did not currently pose a significant threat to financial stability that could not be contained by prudential or other regulatory tools.[1]

12. The Committee had been briefed by the Treasury member on the role envisaged for it in respect of the Help to Buy: Mortgage Guarantee Scheme, which it had been announced in the Budget would be available from January 2014. If, after its initial three-year life, the Government wished to extend the scheme, the Chancellor would ask the FPC to assess the impact of the scheme on financial stability and advise whether, in light of that assessment, the FPC was of the opinion that its continuation would not pose a risk to financial stability. The Treasury member noted that the pricing of the scheme would be on a self-financing, commercial basis, and could in principle be changed during the lifetime of the scheme in the light of developments in the housing market. The Committee agreed on the importance of co-ordination with HM Treasury (HMT) throughout the life of the scheme, given the potential interaction between the scheme and the Committee's tools and macroprudential objectives.

Previous policy recommendations

13. The Committee reviewed progress on its other recommendations in the light of the prevailing risks to financial stability.

14. Resilience to cyber attack. The Committee had received a report from HMT, with input from the Bank (including the PRA), the FCA and government agencies, on progress towards a

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[1] This paragraph was released on 23 October 2013 on the day of publication of the minutes of the MPC's October 2013 meeting.

programme of work to assess, test and improve the financial system's resilience to cyber attacks. The threat had many dimensions and was growing. The financial system had a number of potential vulnerabilities, reflecting its high degree of interconnectedness, its reliance on centralised market infrastructure, and its sometimes complex legacy IT systems. As the Committee had noted in June, it was important that boards of financial firms and infrastructure providers recognised their responsibility for responding to those threats, which required a combination of continuous vigilance and investment to strengthen operational resilience. The PRA, the Bank's financial infrastructure supervisors and the FCA would reinforce that message as a priority. But the public authorities also had an important role to play in co-ordinating and driving change. The Committee welcomed the steps that had already been taken, including general guidance on best practice, and agreed that the approach outlined by HMT set out the right direction of travel. The next step was for the boards of the relevant supervisory bodies to ensure that there was a concrete plan in place to deliver a high level of protection against cyber attacks for each institution at the core of the financial system, including banks and infrastructure providers, recognising the need to adapt to evolving threats. The Committee encouraged HMT and the regulators to ensure that the work to construct these action plans was completed by 2014 Q1, with a progress report to the Committee from the relevant regulatory boards in 2013 Q4. As part of that, the Bank would be reviewing its own resilience. The Committee agreed its recommendation should remain open while these plans were put together.

15. Stress testing. The Committee noted progress towards issuing a Bank discussion paper on the design of a stress testing framework to assess the capital adequacy of the UK banking system, in response to the Committee's March 2013 recommendation. The paper had been prepared under the guidance of the Committee and the PRA Board. At a joint discussion, both bodies had agreed the key questions on which public guidance would be sought, including the range of institutions that should be covered by the tests, scenario design, modelling approach, appropriate hurdle rates, and granularity of public disclosure. Over time, the framework was intended to play a central role in the Committee's deliberations. It would however take a few years to build up the Bank's capabilities; the exercise planned for 2014 would, therefore, be more limited in scope. The consultation would be launched with publication of the discussion paper on 1 October.

16. The Committee reviewed progress in implementing its other outstanding recommendations. In summary:

- The Committee welcomed the PRA's approach to implementing its June 2013 recommendation on reducing the application of the Basel Liquidity Coverage Ratio (LCR). The PRA had released a statement confirming that, where major UK banks and building

societies met the PRA's 7% core equity capital standard, the PRA's Internal Liquidity Guidance would be adjusted to be broadly equivalent to 80% of the LCR until 2015. A similar approach would be introduced by the PRA for smaller banks, building societies and relevant UK operations of overseas banks. The PRA also reported that they were reviewing how to adjust formal and informal targets for other liquidity metrics to ensure those were consistent with the changes made to the liquidity regime. The Committee agreed that its recommendation could therefore be closed.

- The Committee agreed that the PRA had also met its March 2013 recommendation that the PRA should consider applying higher capital requirements to firms with concentrated exposures to vulnerable assets, uncertain asset valuations or high leverage relating to trading activities. Following the publication of revised capital plans by banks and building societies, including steps required by the PRA to tackle leverage, the Committee agreed that it could now release text summarising the Financial Services Authority's initial assessment of the likely actions that banks could take to strengthen their resilience, which had been omitted from the Record of the November 2012 meeting. The omitted text, including the reason for the original omission, is shown in Annex 2.

- The PRA reported that the major banks and building societies were taking the intended steps to meet the Committee's recommendation that they hold capital resources equivalent to at least 7% of their risk-weighted assets, by agreed dates. As recommended by the Committee, the PRA had also asked firms to ensure that plans to address capital shortfalls did not hinder lending to the economy. The Committee would continue to review progress towards these targets, with the expectation of closing these recommendations by 2014 Q2.

- The Committee agreed that its other recommendations should remain open (see Annex 1). Ensuring the major banks and building societies had credible medium-term transition plans towards the future capital and leverage requirements required by national and international legislation would be a key part of the Committee's future work programme. Progress would be reviewed in 2014 Q2. Evaluating firms' exposure to euro-area risks remained an important priority, and should in time be incorporated into the Bank's new stress testing framework. The PRA continued to work with the banks to ensure greater consistency of Pillar 3 disclosures and compliance with the Enhanced Disclosure Task Force recommendations, and the Committee would review progress on these recommendations in mid-2014 after the next annual reporting season. The PRA would provide the Committee

with a report in 2013 Q4 on the feasibility of calculating regulatory capital under end-point Basel III definitions using the Basel/EU standardised approach to credit risk.

17. The Committee reviewed progress on its June 2013 recommendation [13/Q2/7(P)] that, 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. It noted that, since the Committee had last met, a process had been established under the auspices of the international Financial Stability Board (FSB) to ensure the consistency of reviews of existing interest rate benchmarks, to examine the feasibility and viability of adopting additional reference rates and potential transition issues, and to undertake any other tasks requested by the FSB to support the strengthening of interest rate benchmarks. The work was being led by Martin Wheatley in his capacity as Chief Executive of the FCA and Jeremy Stein of the Board of Governors of the Federal Reserve, and drew together senior representatives of central banks, regulators and market participants. On balance, the Committee agreed that, given the international nature of the challenge, this was the right process for taking forward the Committee's concerns, and therefore agreed to close its own recommendation. It was noted, however, that this should not be taken to imply confidence that contingency planning was yet sufficiently well advanced. In the view of some members, that remained a pressing need. The Committee agreed that publication of the original recommendation and subsequent discussion remained against the public interest, given the risk that publication could precipitate the problem that the recommendation was trying to avoid. The Committee would review the state of contingency planning at its next meeting.[2]

18. The Committee agreed that publication of its initial private September 2011 recommendation to HMT on contingency planning [11/Q3/4(P)] remained contrary to the public interest. In the context of late 2011, contingency arrangements for bank recapitalisation and liability restructuring had been discussed because the authorities lacked a sufficiently rich resolution regime, including explicit bail-in powers. Publicising the arrangements contemplated in 2011 risked being misunderstood. The Committee agreed to revisit this judgment once

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

enhanced resolution powers, including bail-in, had been delivered either by the EU or any earlier domestic legislation.[3]

Other issues

19. In February, the European Systemic Risk Board had published a set of recommendations to national authorities on an 'act or explain' basis, relating to the funding of credit institutions.[4] The Committee noted that the Bank was already compliant with a recommendation on assessing the impact of credit institutions' funding plans on the flow of credit to the real economy, and was content with the proposed responses by the PRA and FCA.

20. The Committee noted that both the final report by the Parliamentary Commission on Banking Standards (PCBS) and the Government's response to that report had made a number of recommendations relevant to policies to preserve financial stability. The Bank would be publishing an initial response to the PCBS report shortly, and the Committee would be kept informed and consulted as work on issues relevant to its remit progressed, including on accounting and governance. The PCBS had in particular asked for the Committee to make public its views on the appropriate level for a leverage ratio requirement for banks and on the role of such a ratio in the regulatory framework by end-2013. Members noted that some evaluation might be possible on that timescale, but a full assessment would depend on the definition of leverage agreed internationally. The Committee agreed with the PCBS on the importance of close monitoring of the shadow banking sector; this was reflected in the Committee's future work priorities (see below) and in its reply to the Chancellor's remit and recommendations letter of 30 April.

The FPC's future priorities

21. The Committee had a preliminary discussion of the key financial stability risks and themes that it would focus on over the coming 18 months. A more detailed assessment of these risks, and the horizon over which the Committee proposed to address them, would be published in the

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

[4] http://www.esrb.europa.eu/pub/pdf/recommendations/2012/ESRB_2012_2.en.pdf?ffeaf5755f7f44b15bb2c90851fc9740

November *Financial Stability Report*, as requested by the Chancellor in his remit and recommendations letter.

22. The Committee agreed that, given its statutory objectives, its key overarching priority would remain to monitor, and if necessary act to mitigate, risks to financial stability from the macroeconomic and financial environment.

23. In addition, the Committee identified three further areas to prioritise as part of the UK's implementation of the international reform programme:

- **The medium-term capital framework for banks.** Internationally, a framework and timetable for implementation of capital surcharges had now been agreed for the largest global banks. A UK stress testing framework was being developed. Further work was required to establish and implement standards for: definitions of capital and leverage; asset valuation; the transition to end-point requirements; gone-concern loss-absorbing capacity required in resolution; and the loss-absorbing capacity of systemically important non-banks.

- **Ending too big to fail, including through development and implementation of the new resolution regime.** For systemically important banks, this would include capital, leverage and liquidity standards, heightened supervisory intensity, implementation of structural reform initiatives such as that of the Independent Commission on Banking, and new resolution regimes. Once the EU's Resolution and Recovery Directive was passed into law, this would facilitate implementation of the Financial Stability Board's (FSB) work programme, and ensure that credible resolution plans existed for all of the major UK banks and other potentially systemic UK institutions. There was also an important link to the capital framework and, in particular, the level and position within each relevant financial group of gone-concern loss-absorbing capacity required in resolution.

- **Transforming shadow banking into diverse and resilient market-based finance.** This would involve ensuring that the UK had an effective regime for monitoring and mitigating risks to stability from shadow banking, consistent with international standards. It would also include helping to support more diverse sources of finance, including via the capital markets. Diversity in the banking sector, the development of new forms of funding and deepening of capital markets were potential ways to diversify the supply of financial services and thereby enhance resilience.

24. The Committee reviewed a draft of the Bank's Financial Stability Strategy, setting out how all parts of the Bank, including the PRA, would deliver its statutory objective of protecting and enhancing the stability of the financial system of the United Kingdom. The timing of the review was determined by the Bank of England Act 1998, as amended by the Financial Services Act 2012, which required the Bank's Court of Directors to publish a strategy by 1 October, after consultation with the Committee. It was, however, likely that the strategy would be updated in early 2014, once the Committee and the whole Bank had fleshed out their medium-term priorities more fully.

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

Mark Carney, 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
Martin Wheatley, Chief Executive of the Financial Conduct Authority
Clara Furse
Andrew Haldane
Donald Kohn
Richard Sharp
Martin Taylor
Charles Roxburgh attended as the Treasury member in a non-voting capacity.

As permitted under the Bank of England Act 1998, as amended by the Financial Services Act 2012, David Lees and Michael Cohrs were also present as observers in their role as members of the Oversight Committee of Court.

ANNEX 1: 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.[5]
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/Q1/4	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/Q2/3	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.

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

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.

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/Q2/3; 13/Q2/4; 13/Q2/5.

ANNEX 2: TEXT PREVIOUSLY OMITTED FROM NOVEMBER 2012 RECORD

The following text now appears after paragraph 23 of the FPC's November 2012 Record:

There was a risk that if these factors were highlighted by the Committee in public, without there being clear accompanying actions, confidence in UK banks – and hence financial stability – could be adversely affected. The FSA therefore laid out an initial indication of the likely actions each major bank could take to strengthen their resilience. One major UK bank had recently issued contingent capital instruments, and the FSA had been in active discussions with that bank about issuing further such capital. Another bank had recently announced asset sales which would boost its capital buffer, and it already had a greater cushion of loss-absorbing capital over the FSA's guidance. The feasible actions for the two major UK banks in which there was a significant public stake were more limited, in part because the Chancellor, via the Treasury member, had clearly indicated to the Committee that he was not minded to inject additional public funds into these banks unless absolutely necessary in the interests of UK financial stability. But, amongst other options, there were actions that these banks could take to accelerate the restructuring of their balance sheets, without hindering lending. Moreover, some members argued that the fact that these banks had large public stakes implied that confidence in these institutions was more likely to be maintained even if problems in their balance sheets were revealed. They were, therefore, arguably less likely to pose an immediate threat to financial stability. But the case for taking decisive action to deal with the legacy problems at these institutions was strengthened by the scale of the issues they appeared to have in the specific areas considered by the Committee. And the substantial share of lending to households and businesses that these two banks accounted for implied that they were more likely to pose a medium-term threat to overall financial stability if they acted as a constraint on a macroeconomic recovery. It was important that the FSA firmed up these initial indications with all of the individual institutions promptly, to ensure that there was no ambiguity about what the FPC's general recommendation implied for each of them.

The Committee agreed, however, that it would be contrary to the public interest to reveal the broad quantitative judgements it had made with respect to the overstatement of banks' capital positions across the sector, or the FSA's indications of likely actions that banks might take to rebuild their resilience, at this point.