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RECORD OF THE FINANCIAL POLICY COMMITTEE MEETING

23 SEPTEMBER 2015

This is the record of the Financial Policy Committee meeting held on 23 September 2015.

It is also available on the Internet:
http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2015/record1510.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's next policy meeting will be on 25 November and the record of that meeting will be published on 9 December.

RECORD OF FINANCIAL POLICY COMMITTEE MEETING HELD ON 23 SEPTEMBER 2015

At its meeting on 23 September, the Financial Policy Committee made no new Recommendations.

The FPC set the countercyclical capital buffer rate for UK exposures at 0%.

1. The Committee met on 23 September to agree its view on the outlook for financial stability and, on the basis of that, any intended policy action. It assessed the outlook for financial stability by weighing the risks faced by the financial system against the resilience of the system.

2. At its previous meeting, in June, the Committee had identified the main risks facing the financial system in the United Kingdom as: the global environment; the reduction in market liquidity in some markets; the United Kingdom's current account deficit; the housing market in the United Kingdom; consequences of misconduct in the financial system; and cyber attack. Given developments since then, it focused at this meeting largely on the global outlook, market liquidity and functioning and buy-to-let mortgage lending.

The macroeconomic and financial environment

Risks from the global environment

3. The immediate risks in relation to Greece and the euro area had fallen somewhat from their acute level at the time of publication of the July 2015 *Financial Stability Report* (FSR), with a new programme agreed between the Greek government and its European partners. A sustainable solution will require successful implementation of the programme and an agreement on debt relief.

4. The global outlook had been dominated by further developments in China and emerging market economies (EMEs) more broadly. Prospects in China and other EMEs had softened since July 2015 and downside risks, while not new, had risen. Spreads on EME sovereign and corporate dollar bond indices had risen and EME currencies had fallen by around 4% since August and 11% over the past year. Currencies of some commodity-exporting economies had seen much steeper falls.

5. China was making the transition to a more liberalised, consumption-driven and ultimately slower growth economy. These transitions had been made more challenging by underlying vulnerabilities arising from a rapid build-up of debt since the crisis: the ratio of credit to GDP in China had more than doubled since 2008, to 195%. Non-performing loan rates were starting to rise.

6. Other EMEs faced a set of challenges and downside risks with broader origins beyond developments in China. First, the broad slowing of EME growth had been one factor behind lower commodity prices, which had reduced export earnings and further damaged the ability of commodity producers to service debts. Second, slowing growth and divergent monetary policy

prospects between some major advanced economies and EMEs had encouraged capital outflows, further tightening domestic financing conditions in EMEs. Capital outflows, including redemptions from EME-focused bond and equity funds, had accumulated to over $90 billion over the past year. Third, where EME exchange rates had depreciated, the burden of debt denominated in foreign currency had increased. Dollar-denominated borrowing by EMEs had more than doubled since 2008.

7. The Committee discussed the ways in which these risks in both China and EMEs more broadly could affect financial stability in the United Kingdom. After a period of rapid growth, EMEs were now 60% larger, in real GDP terms, than prior to the crisis in 2006 and greater leverage meant that the outstanding debt of their non-financial sectors had more than trebled. UK-owned banks' consolidated claims on these countries had roughly doubled since 2006. UK banks' claims on China and other emerging markets were around 3.5 times common equity Tier 1 (CET1) capital. The Committee was assessing the capacity of UK banks to withstand these risks in the 2015 stress test.

8. Looking beyond the banking system, UK asset managers also had material holdings of emerging market debt securities. UK financial stability could also be affected more indirectly through markets if reallocation of capital in the global economy tested market functioning, or if capital inflows into advanced economies, including the United Kingdom, encouraged looser underwriting standards or stretched asset prices. Though risk had begun to be repriced, members judged that market prices might not yet sufficiently be factoring in the potential for a deterioration in liquidity conditions given changes in market functioning and elevated tail risks related to EMEs.

9. The FPC noted the MPC's view that global developments "did not as yet appear sufficient to alter materially the central outlook described in the August *Inflation Report*, but the greater downside risks to the global environment merited close monitoring". Overall the FPC judged that, although China appeared to have sufficient policy capacity to manage its transition towards a more consumption-based economy in an orderly way, the risk of a sharper slowing, with spillovers to other vulnerable EMEs, had increased. Given the increased importance of EMEs to the global economy and financial system, there was the potential for a material impact on UK financial stability, through both direct and indirect links.

Risks from the UK current account

10. The Committee noted that the UK current account deficit remained close to a record high, although the capital flows financing the deficit had remained mostly long-term in nature and did not give rise to material mismatches. The United Kingdom had attracted safe haven flows. But continued ease in financing rested on the credibility of the United Kingdom's policy framework and continuing openness to trade and investment. The risks from the current account were mitigated by: the Government's plan to bring the public sector finances towards surplus; assessment in the 2014 stress test of the resilience of the UK banking system to an abrupt adjustment of the United Kingdom's external imbalance; and previous action by the FPC to limit the accumulation of residential mortgage debt at high loan to income ratios. The Committee would continue to monitor closely risks associated with the current account, including the extent to which inflows of capital might be creating vulnerabilities in specific sectors such as commercial real estate.

Risks from market functioning

11. The Committee's July 2015 FSR had documented a number of episodes of very high financial market volatility exposing the fragility of market liquidity. In particular, on 24 August, currency markets and US equity markets for a period had traded in a disorderly way: over 1,000 temporary suspensions had been placed on individual equities on the New York Stock Exchange.

12. In March, the Committee had asked the Bank and the FCA to assess how and why liquidity in relevant markets might have become more fragile and to investigate the possibility that persistent disruptions to market liquidity could affect issuance conditions for real economy borrowers, with systemic consequences. The Committee had reviewed provisional findings of that work and asked for further analysis in the light of the latest developments, which would be published in due course.

13. A number of the episodes of high volatility had shared common characteristics of originating in largely electronic markets that were often exchange-traded and experienced sudden reductions in market depth, as measured by the volume of offers to buy and sell at prevailing market prices. In these markets, automated trading and the use of passive and other pro-cyclical trading strategies, that in aggregate could amplify price moves, might be growing in importance.

14. To date, the episodes had been short-lived and without systemic consequences. However, there was evidence that disorderly conditions in one market could spill over to others. For example, the suspension of trading in cash equities on 24 August had affected associated

derivatives markets, with large discounts having emerged between exchange-traded funds and the underlying equities on which they were based. In derivatives markets, option-implied measures of uncertainty around future equity prices had increased intraday to their highest level since 2009.

15. The Committee was alert to the possibility that future heightened volatility and reductions in market depth could have more widespread and persistent effects, including on the provision of credit to the real economy. It asked the Bank and the FCA for further analysis of common causes of recent episodes and whether factors that had stabilised markets in the past could be relied upon and the channels by which there had been contagion between markets.

16. The Committee also reviewed changes in market functioning in largely over-the-counter markets such as corporate bond markets. There was evidence that turnover in some of these markets had fallen and average trade size reduced. Transaction data had suggested that market-making dealers accounted for more than half of gross trading volumes in sterling-denominated corporate bonds, facilitating sales and purchases of such bonds by end investors. Since the crisis, however, the role of dealers had changed: with transaction volumes unaffected, inventories had been worked harder; at the same time, inventories appeared to have become less responsive, and prices more responsive, to sales of securities by other investors.

17. The Committee asked the Bank for an updated assessment of changes in dealers' ability to act as intermediaries in markets and how this may have affected market liquidity. This work would draw on the Bank's forthcoming Open Forum which would take stock, among other things, of the impact of regulatory reforms on financial markets.

18. In the context of potentially more fragile market liquidity, the Committee had asked the Bank and the FCA to analyse the risks associated with a range of market participants, starting with open-ended funds offering short-notice redemption. These funds had grown in importance since the financial crisis, one part of a broader shift of financial intermediation from banks to market-based finance. The Committee's regular analysis of a range of activities beyond the core banking sector would also be useful in this context. Members noted that it would be important to analyse the possible behaviour of sovereign wealth funds, pension funds and insurers.

19. The Bank and the FCA had surveyed 17 asset management firms covering 143 investment funds and conducted follow-up interviews with eight firms. That work had suggested that funds operating under UCITS[1] ensured that remaining investors were not disadvantaged when

[1] Undertakings for collective investment in transferable securities (UCITS) – Directive 2014/91/EU, amending Directive 2009/65/EC.

redemptions occurred. This reduced incentives for investors to redeem if they suspected others would do the same. These funds also operated with minimal amounts of borrowing.

20. The Committee asked for further work on the potential impact of correlated investment behaviour by investment funds and the measures those funds could deploy under stress. It would report on its conclusions in the December 2015 FSR.

21. Recognising the global nature of financial markets, the Bank and the FCA would continue to work at an international level, through the European Systemic Risk Board and the Financial Stability Board, on market liquidity issues. Considering international initiatives, some members noted that there may be a benefit from securities regulators sharing best practice on how to deal with periods of extreme volatility, given the potential financial stability implications from these episodes.

Risks from the domestic housing market

22. In the United Kingdom, house prices had continued to rise faster than incomes, with forward-looking indicators suggesting that house price inflation would pick up further in the near term. Transaction volumes had also risen and spreads on mortgage rates had fallen to their lowest level since 2008. However, the proportion of owner-occupier mortgagors with high debt servicing ratios had been broadly stable at 5% since 2011 and, more recently, the share of new mortgage lending with loan to income ratios above 4.5 had fallen slightly to 8%. With this in mind, the Committee judged that the insurance provided by its June 2014 housing Recommendations for the owner-occupier market remained warranted.

23. The buy-to-let sector of the mortgage market had continued to grow rapidly, consistent with a structural trend towards a larger private rental sector, driven by demographic changes and higher house prices relative to incomes. The outstanding stock of buy-to-let mortgage lending had increased by over 40% since 2008. Over the same period, the stock of owner-occupier mortgage lending had risen by only 2%. The share of buy-to-let in the stock of outstanding mortgage lending had therefore increased to 16% from 12% in 2008.

24. Buy-to-let and owner-occupier mortgages differed in their exposure to a drop in house prices. Risks from buy-to-let mortgage lending would be relatively contained if house prices fell moderately, given that only a small share of buy-to-let was extended at high loan to value (LTV) ratios. However, the stock of buy-to-let lending might be disproportionately vulnerable to very large falls in house prices. Buy-to-let mortgages were typically extended on interest-only terms

and therefore did not amortise. As a result, LTV ratios on older vintages of buy-to-let loans fell more slowly over time. Indications of this vulnerability to larger falls in house prices had been seen in the 2014 stress test of the UK banking system, which had featured a 35% fall in house prices. The results of the test had confirmed the resilience of the core banking system to losses on buy-to-let mortgage lending on the basis of end-2013 portfolios.

25. Buy-to-let mortgage lending had the potential to amplify the housing and credit cycles, though the extent of the amplification was hard to judge because the market had only recently grown to significant levels. Any increase in buy-to-let activity in an upswing could add further pressure to house prices. This could prompt owner-occupier buyers to take on even larger loans, thereby increasing overall risks to financial stability. Demand for buy-to-let lending was itself likely to be cyclical, as in an upswing demand might increase from landlords seeking not only rental return but also capital gains. Buy-to-let investors might further exacerbate a downturn if they expected rental incomes to fall below their interest payments, and consequently added to selling pressure. Survey evidence had suggested that around 40% of buy-to-let investors would respond to a fall in their rental income below their interest payments by seeking to sell their property. Large falls in house prices might in turn directly affect consumer spending, as households would have less collateral against which to borrow. Credit risk on UK lenders' balance sheets would also rise.

26. Changes to mortgage interest tax relief that had been announced in the July Budget were likely to reduce the incentives of some investors to take on increased leverage. And there was little evidence that underwriting standards of major lenders had fallen. Less than 12% of buy-to-let lending in Q2 2015 had had an LTV greater than 75%, compared to almost 40% of owner-occupier mortgage lending. The majority of buy-to-let lending had further appeared to be extended at interest coverage ratios of greater than 125%, evaluated at a stress interest rate of 5%.

27. The FPC judged that there was, at present, no immediate case for action in the buy-to-let mortgage market. However, the FPC was alert to the rapid growth of the market and potential developments in underwriting standards. As the market continued to grow, particularly if driven by loosening of underwriting standards, the sector could pose risks to broader financial stability, both through credit risk to banks and the amplification of movements in the housing market. Intensified competition among lenders could lead to loosening underwriting standards in future. The FPC supported the intention of the Bank and the PRA to develop datasets needed for systematic monitoring of those standards and other terms and conditions on buy-to-let mortgage lending.

28. The rapid growth of the market also underscored the importance of FPC powers of Direction for use in future. HM Treasury had said it would consult on powers of Direction for the FPC related to buy-to-let lending later in 2015. It had already provided the FPC with powers of Direction to manage financial stability risks arising from owner-occupier mortgage lending. Housing tools were important for the FPC given the UK and international evidence of the potential for systemic risks associated with housing market cycles and given features of the UK housing market, including high levels of household debt.

Help to Buy annual assessment

29. The Committee discussed its assessment of the impact on financial stability of the Help-to-Buy: Mortgage Guarantee Scheme (HTB), including whether the parameters of the scheme remained appropriate. It had been asked to consider this annually, each September, by the Chancellor, and this was its second annual assessment.

30. Use of the scheme had been modest in the past year, in line with expectations. HTB loans accounted for just under 6% of the flow of mortgages for house purchase and HTB lending to date had only made up a relatively small proportion of large lenders' books. Furthermore, estimates suggested that lenders were still earning enough income on scheme loans to cover both the scheme fee and potential losses, even under a very severe stress. The latest data had suggested underwriting standards within the scheme and for high LTV (above 90%) loans more generally remained reasonably prudent, suggesting HTB had not driven any increase in riskier lending.

31. While the share of high LTV lending had picked up slightly over the past year, it remained low relative to the level before the crisis: high LTV loans accounted for about 11% of new mortgages over the past four quarters, compared with roughly a quarter in 2007. Spreads on high LTV loans had narrowed over the past year. However this trend did not appear to have been driven by the scheme and levels remained well above pre-crisis. There had been strong house price growth in some regions but, in the Committee's judgement, the scheme did not appear to have been a material driver of that growth. Regions where HTB loans had accounted for the highest market share had tended to experience house price growth below the national average since the launch of the scheme. This implied that at current volumes of lending, neither the scheme nor the associated return to high LTV lending posed a systemic risk.

32. The Committee concluded that, under current market conditions, the scheme did not pose material risks to financial stability. Further, the Committee did not see a case for changing the fee

or the current setting of the house price cap on financial stability grounds at this point. This assessment would be published in a letter to the Chancellor alongside the statement of its meeting.

Other risks

33. The Committee also reviewed the other risks highlighted in its July FSR. It had noted in July that an increasing number of respondents to the Bank's *Systemic Risk Survey* had named cyber risk as a key concern over the previous two years. In response to risks posed by cyber attack, the Committee decided to maintain its June 2015 Recommendation to the Bank, the PRA and the FCA to ensure firms at the core of the financial system completed cyber risk testing and adopted individual action plans. The scale of future misconduct and redress costs for the UK banking sector remained highly uncertain and banks should hold sufficient resources to pay these costs without affecting their ability to continue to lend to the real economy. The Committee would review potential future costs as part of the 2015 stress test of the UK banking system.

Resilience of the financial system

34. There had been continuing improvement in the resilience of the banking sector. The major UK banks had increased their aggregate CET1 ratio by 0.5 percentage points in 2015 Q2 to 11.9%, and their aggregate leverage ratio had risen by 0.3 percentage points to 4.7%. Major UK banks' CET1 ratios had risen by 1.1 percentage points over the past year and by 4.6 percentage points since 2011. Capital ratios had been improved mostly through banks reducing their non-core assets including trading assets and international exposures, rather than by cutting domestic lending. Potential headwinds to banks' resilience remained, however.

35. UK bank funding spreads had risen only a little in response to market volatility in recent months. More broadly, increased volatility in financial markets since the July FSR had reflected heightened perceptions of risk, and highlighted changes in the way those markets function that may have the potential to disrupt financing conditions in the real economy, although they had not done so to date. Market participants should be alert to these risks, price liquidity appropriately and manage it prudently.

Overall outlook and countercyclical capital buffer decision

36. The Committee then summarised its outlook for financial stability, weighing the risks faced by the financial system against the resilience of the system, before turning to its decision on the countercyclical capital buffer (CCB) rate.

37. Overall, the FPC judged that the outlook remained challenging. While the resilience of the financial system had continued to improve, downside risks had risen in particular from the global environment, to which the United Kingdom as a global financial centre was exposed.

38. In considering the appropriate setting for the CCB, the Committee noted that increases in resilience had supported credit expansion to the UK economy, with annual UK private sector non-financial credit rising by 3% in the year to 2015 Q1. Intelligence from the Bank's Agents and its latest *Credit Conditions Survey* had suggested that credit availability for companies, including small enterprises, had generally improved throughout 2015.

39. It also considered the Basel 'buffer guide' – a simple metric identified in legislation, which, alongside other variables relevant to risks to the stability of the financial system, provided a guide for the CCB rate based on the gap between the ratio of credit to GDP and its long-term trend. Reflecting modest credit growth over the past year, the credit to GDP ratio had fallen by around 3 percentage points to 145%. On this basis, the 'buffer guide' implied that the CCB rate should be set at 0%. But as the Committee had discussed in previous meetings, there was no simple, mechanistic link between the 'buffer guide' and the CCB rate.

40. The Committee discussed the role of the CCB. It enabled the FPC to put banks in a better position to withstand stress through the financial cycle, by requiring them to raise capital ratios as threats to financial stability emerged and allowing them to run them down if risks crystallised or eased. Varying the buffer over the cycle could allow capital requirements to be set in a way that was both prudent and efficient. As the FPC had noted in its review of the leverage ratio in October 2014, in the absence of such buffers, the minimum level of requirements would need to be higher to give the necessary level of protection to ensure financial stability.

41. Given the challenging outlook for financial stability, with modest but rising credit growth and indicators that some domestic risks were beginning to re-emerge, it could be argued that the system was moving into a more normal phase of the credit cycle and that should be reflected in the Committee's consideration of the appropriate CCB rate. The Committee also noted the possible benefits of moving the CCB in smaller increments, especially when credit growth was not unusually strong and given the likely lags in implementation of any new CCB rate.

42. The Committee would continue to monitor credit growth closely. The level of credit to GDP remained high by historical standards. Although growth rates of credit had picked up recently, they remained subdued. The FPC would also receive next quarter the results of the 2015 stress test, which would help it to assess the resilience of the banking sector to a number of the

main risks faced by the financial system. The Committee noted that decisions regarding the CCB might have implications for existing firm-specific capital buffers, to the extent that these took cyclical risks into account.

43. On balance, against the backdrop of credit growth that was still modest but picking up a little, domestic risks beginning to re-emerge from a low post-crisis base, the global risk environment, and a level of resilience in the banking system that was around the end-point Basel III requirements, the Committee decided to maintain the CCB rate for UK exposures at 0%. This setting would be reviewed in 2015 Q4 in the light of the 2015 stress test results. The Committee would also consider the appropriate level of the CCB for all stages of the cycle, taking into account lags in implementation, its impact on credit availability and how it should interact with other existing microprudential capital buffers already in place.

Existing Recommendations

44. The Committee reviewed the progress made on implementing its existing Recommendations and Directions since its previous policy meeting. Full text of these Recommendations and Directions is in Annex 1 of this Record (identifiers in brackets below refer to that annex).

45. Stress testing (13/Q1/6): In line with its previous Recommendation on establishing a regular programme of stress testing, the FPC received a briefing on the Bank's developing approach to stress testing to 2018, ahead of planned publication of this approach. This framework would take into account the responses received to the Bank's October 2013 Discussion Paper on stress testing, as well as experience of stress testing since then. One component of the approach could be to establish how stress testing scenarios might be used as an input to inform decisions on the appropriate CCB rate in the future. The FPC agreed to review this Recommendation at its next policy meeting, when it would likely be closed subject to the publication of the Bank's approach.

46. Powers of Direction over housing instruments (14/Q3/1): The FPC had been granted powers of Direction over mortgage lending for owner-occupied properties earlier in 2015. The outstanding part of this Recommendation related to the powers of Direction over buy-to-let mortgage lending, on which HM Treasury intended to consult later in the year. The FPC agreed to review this Recommendation once HM Treasury's consultation had taken place.

47. Leverage ratio (15/Q2/1(D); 15/Q2/2): On 10 July 2015, the PRA had launched a consultation on implementing a UK leverage ratio framework, in response to the FPC's Direction. This consultation would close on 12 October 2015. The FPC agreed to review the implementation of this

Direction, and associated Recommendation on relevant capital instruments to meet the leverage Direction, once the PRA's consultation had closed.

48. <u>CBEST vulnerability testing (15/Q2/3)</u>: In June 2015, the FPC had recommended that the Bank, the PRA and the FCA work with firms at the core of the UK financial system to ensure that they complete CBEST tests and adopt individual cyber resilience action plans, and that the Bank, the PRA and the FCA should also establish arrangements for CBEST tests to become one component of regular cyber resilience assessment within the UK financial system. It had also endorsed a broad work programme by the financial authorities aimed at increasing the financial system's resilience to cyber attack. The Committee had asked for a report back on that work programme by summer 2016 and agreed to review its Recommendation at that point.

Text where publication had previously been deferred

49. In 2015 Q1, the FPC had received a briefing on potential financial stability risks in relation to Greece and associated contingency planning. Details had been deferred from publication from the March 2015 FPC Record.[2] At the time, the FPC had judged that publishing the text would not be in the public interest as it could exacerbate the risk that contingency planning was seeking to mitigate. It had reaffirmed this judgement in June 2015, when risks associated with Greece's financing needs had been particularly acute. Since June, near-term financial stability risks in relation to Greece had reduced. The Committee therefore judged that publication of this text was no longer against the public interest. The March and June 2015 Records would be updated to include the previously deferred text at the same time as the Record of this meeting was published. The text is included in Annex 2 of this Record.

[2] Under section 9U of the Bank of England Act 1998, the FPC can defer publication of some parts of its Records if it decides that publication at that point would be against the public interest.

The following members of the Committee were present:

Mark Carney, Governor
Jon Cunliffe, Deputy Governor responsible for financial stability
Andrew Bailey, Deputy Governor responsible for prudential regulation
Ben Broadbent, Deputy Governor responsible for monetary policy
Tracey McDermott, Acting Chief Executive of the Financial Conduct Authority
Alex Brazier
Clara Furse
Donald Kohn
Richard Sharp
Martin Taylor
Charles Roxburgh attended as the Treasury member in a non-voting capacity.

Nemat Shafik, Deputy Governor responsible for markets and banking, also attended the meeting.

As permitted under the Bank of England Act 1998, Dido Harding was also present as an observer in her role as member of the Oversight Committee of Court.

ANNEX 1: PREVIOUS FPC POLICY DECISIONS

Extant FPC Recommendations and Directions

Identifier[*]	Recommendation/Direction
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.
14/Q3/1	The FPC recommends that HM Treasury exercise its statutory power to enable the FPC to direct, if necessary to protect and enhance financial stability, the PRA and FCA to require regulated lenders to place limits on residential mortgage lending, both owner-occupied and buy-to-let, by reference to: (a) loan-to-value ratios; and (b) debt-to-income ratios, including interest coverage ratios in respect of buy-to-let lending.
15/Q2/1(D)	The FPC directs the PRA to implement in relation to each major UK bank and building society on a consolidated basis measures to: • require it to hold sufficient Tier 1 capital to satisfy a minimum leverage ratio of 3%; • secure that it ordinarily holds sufficient Tier 1 capital to satisfy a countercyclical leverage ratio buffer rate of 35% of its institution-specific countercyclical capital buffer rate, with the countercyclical leverage ratio buffer rate percentage rounded to the nearest 10 basis points; • secure that if it is a global systemically important institution (G-SII) it ordinarily holds sufficient Tier 1 capital to satisfy a G-SII additional leverage ratio buffer rate of 35% of its G-SII buffer rate. The minimum proportion of common equity Tier 1 that shall be held is: • 75% in respect of the minimum leverage ratio requirement; • 100% in respect of the countercyclical leverage ratio buffer; and • 100% in respect of the G-SII additional leverage ratio buffer. Common equity Tier 1 may include such elements that are eligible for grandfathering under Part 10, Title 1, Chapter 2 of Regulation (EU) 575/2013 as the PRA may determine.
15/Q2/2	The FPC recommends to the PRA that in implementing the minimum leverage ratio requirement it specifies that additional Tier 1 capital should only count towards Tier 1 capital for these purposes if the relevant capital instruments specify a trigger event that occurs when the common equity Tier 1 capital ratio of the institution falls below a figure of not less than 7%.
15/Q2/3	The FPC recommends that the Bank, the PRA and the FCA work with firms at the core of the UK financial system to ensure that they complete CBEST tests and adopt individual cyber resilience action plans. The Bank, the PRA and the FCA should also establish arrangements for CBEST tests to become one component of regular cyber resilience assessment within the UK financial system.

[*] Each Recommendation and Direction is listed with an identifier to allow tracking of progress. For example, '13/Q1/6' refers to the sixth Recommendation made at the 2013 Q1 meeting.

Other FPC policy decisions which remain in place

The table below sets out previous FPC decisions, which remain in force, on the setting of its policy tools. The calibration of these tools is kept under review.

Topic	Calibration
Countercyclical capital buffer (CCB)	The current UK CCB rate is 0%. This rate is reviewed on a quarterly basis. The United Kingdom has also reciprocated a number of foreign CCB decisions — for more details see the Bank of England website.[3] Under PRA rules, foreign CCB rates applying from 2016 onwards will be automatically reciprocated if they are less than 2.5%.
Prevailing FPC Recommendation on mortgage affordability tests	When assessing affordability in respect of a potential borrower, UK mortgage lenders are required to have regard to any prevailing FPC Recommendation on appropriate interest rate stress tests. This requirement is set out in FCA rule MCOB 11.6.18(2).[4] In June 2014, the FPC made the following Recommendation (13/Q2/1): *When assessing affordability, mortgage lenders should apply an interest rate stress test that assesses whether borrowers could still afford their mortgages if, at any point over the first five years of the loan, Bank Rate were to be 3 percentage points higher than the prevailing rate at origination. This Recommendation is intended to be read together with the FCA requirements around considering the effect of future interest rate rises as set out in MCOB 11.6.18(2).*
Recommendation on loan to income ratios	In June 2014, the FPC made the following Recommendation (13/Q2/2): *The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) should ensure that mortgage lenders do not extend more than 15% of their total number of new residential mortgages at loan to income ratios at or greater than 4.5. This Recommendation applies to all lenders which extend residential mortgage lending in excess of £100 million per annum. The Recommendation should be implemented as soon as is practicable.* The PRA and the FCA have published their respective approaches to implementing this Recommendation: the PRA has issued a Policy Statement, including rules,[5] and the FCA has issued general guidance.[6]

[3] http://www.bankofengland.co.uk/financialstability/Pages/fpc/ccbrates.aspx
[4] https://www.handbook.fca.org.uk/handbook/MCOB/11/6.html
[5] http://www.bankofengland.co.uk/pra/Documents/publications/ps/2014/ps914.pdf
[6] http://www.fca.org.uk/news/fg14-08

ANNEX 2: DEFERRED PUBLICATION TEXT

Under section 9U of the Bank of England Act 1998, the FPC can defer publication of some parts of its Records if it decides that publication at that point would be against the public interest. At its meeting, the FPC decided to publish text that had previously been deferred in relation to Greece. This text is reproduced below and the Records from which publication was deferred have been updated on the Bank's website.

Date	Text
March 2015	Prior to the policy meeting, the FPC had discussed and received a briefing on the financial stability risks and contingency planning associated with the continuing uncertainties in Greece. The Committee noted that risks were likely to remain elevated given the fragility of the political and financial situation. Given the above material risks, Bank staff had been working closely with HM Treasury and the FCA to ensure contingency plans were in place. Supervisors had reviewed the contingency planning arrangements of the major UK banks and also of the subsidiaries and branches of Greek and Cypriot banks that operated in the United Kingdom. Supervisors had also undertaken enhanced monitoring of the deposit and liquidity movements of those Greek and Cypriot institutions. Bank staff had also reviewed exposures of UK CCPs to Greek clearing members, the counterparty risk of payment systems and the exposures of securities settlement systems to Greek assets. Renewed or increased stress in the euro area and associated market uncertainty could lead to an increase in interbank funding costs, either because of specific counterparty concerns or a general increase in risk aversion. The euro area had suffered severe financial market stress during 2010-12 when there had been an increase in UK bank funding costs and heightened economic uncertainty which had weighed on UK consumer and investment spending. Since then, however, bank capital and liquidity positions had strengthened and the Bank of England had enhanced its liquidity insurance facilities to allow it to provide liquidity against a wider range of collateral, to a broader range of counterparties, and for a longer term. The banks that had signed up to these facilities had prepositioned substantial amounts of collateral at the Bank, which would allow the Bank to respond quickly if a liquidity need arose. Footnote: The Committee decided not to publish this text, as permitted by Section 9U(8)(b) of the Act. It was of the opinion that publication at this time was against the public interest.
June 2015	The Committee reviewed the text that had been redacted from its previous record relating to contingency planning associated with continuing uncertainties in Greece. It agreed that publication of the text remained contrary to the public interest, because there was a risk of exacerbating the risks that the contingency planning was seeking to mitigate. It was not possible to agree now a date at which the text would be published. But the Committee would keep it under review.