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RECORD OF THE FINANCIAL POLICY COMMITTEE MEETING

20 SEPTEMBER 2016

This is the record of the Financial Policy Committee meeting held on 20 September 2016.

It is also available on the Internet:
http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2016/record/1610.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 a committee of the Bank of England.

The FPC's next policy meeting will be on 23 November 2016 and the record of that meeting will be published on 6 December.

RECORD OF FINANCIAL POLICY COMMITTEE MEETING HELD ON 20 SEPTEMBER 2016

At its meeting on 20 September, the Financial Policy Committee (FPC):

- Maintained the UK countercyclical capital buffer (CCyB) rate at 0%, and reaffirmed that it expected to maintain a UK CCyB rate at 0% until at least June 2017, absent any material change in the outlook. It continued to support the clear supervisory expectation of the Board of the Prudential Regulation Authority (PRA) that firms should not increase dividends and other distributions as a result of the UK CCyB rate being maintained at 0%.

- Considered that the two Recommendations it had made to the PRA in July 2016 had been implemented:

    - Where existing PRA supervisory buffers of PRA-regulated firms reflect risks that would be captured by a UK countercyclical capital buffer rate, to reduce those buffers, as far as possible and as soon as practicable, by an amount of capital which is equivalent to the effect of a UK countercyclical capital buffer rate of 0.5%;

    - When applying its rules on the leverage ratio, to consider allowing firms to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity.

1. The Committee met on 20 September to agree its view on the outlook for financial stability and, on the basis of that, its intended policy action.

2. The FPC assessed the outlook for financial stability by identifying the risks faced by the UK financial system and weighing them against the resilience of the system. In doing so, its aim is to ensure the financial system can continue to provide essential services to the real economy, even in adverse circumstances.

Main developments since July

3. The Committee reviewed financial system and economic developments since its meetings in July. The financial system had demonstrated resilience to spikes in uncertainty and risk aversion. Core financial markets had functioned effectively despite initial sharp price moves and particularly high volumes of transactions relative to normal levels in some markets. Bank funding conditions had remained broadly stable. That reflected the consistent building of resilience in the financial system over recent years, extensive contingency planning undertaken by the Bank of England and financial institutions in the run up to the referendum, and the co-ordinated actions taken by the Bank after the referendum.

4. A number of economic indicators had picked up from their post-referendum low points, with news on the near-term momentum of the UK economy slightly to the upside relative to the Monetary Policy Committee's (MPC) growth projections in the August *Inflation Report*. But there had been no new information relevant for long-term prospects for the UK economy, and the FPC's view was that the United Kingdom faced a challenging period of uncertainty and adjustment.

Risks to financial stability

5. The FPC reviewed in turn each of the channels of risk it had been monitoring closely and had outlined in the July 2016 *Financial Stability Report*.

UK commercial real estate market

6. Activity in the UK commercial real estate (CRE) market had continued to slow since the FPC's meeting in July. Total CRE transactions in July and August had on average been around

60% lower than the same time a year ago and were now at their lowest level since 2009. Aggregate CRE valuations had fallen by 2.8% in July, the largest monthly fall since 2009, and by a further 0.7% in August. Valuation uncertainty had also increased, with the Royal Institution of Chartered Surveyors (RICS) recommending that its members qualify valuations with uncertainty clauses.

7. Prospects for the UK CRE market had also weakened. The latest RICS survey had reported a significant moderation in occupier demand in Q2. This could fall further in a weaker economic outlook, and put downward pressure on rents. Partly reflecting that, external forecasters expected a fall in CRE prices by end-2017 of around 10% on average.

8. Price adjustments in the CRE market could be amplified by the behaviour of investors in open-ended commercial property funds. A number of open-ended funds had suspended redemptions following the referendum owing to liquidity pressures, as investors sought to divest from the sector. Suspensions had helped to mitigate the risk of a sharp price adjustment associated with widespread, rapid sales of CRE. The funds had nevertheless faced material redemptions in advance of those suspensions and had needed to rebuild liquid asset holdings. Several funds had sold property to raise liquidity quickly and, subsequently, some funds had indicated that they were preparing to reopen. Price adjustments could be further amplified by leveraged investors. The total stock of debt used to finance UK CRE investment had increased in 2015 for the first time since the crisis – though it remained around 34% lower than its pre-crisis peak, according to survey data.

9. Overall, the FPC judged that the risks of a sharp adjustment in the UK CRE market were crystallising. Major UK banks had been found to be resilient to stresses in the CRE market in the 2014 and 2015 stress tests and their resilience was being tested again in the ongoing 2016 stress test. Nevertheless, as discussed in the July 2016 *Financial Stability Report*, such an adjustment could result in a tightening of credit conditions, and affect economic activity, by reducing the ability of companies that use CRE as collateral to access finance. According to a Bank of England review in 2015 of bank lending to small and medium-sized companies, 75% of those UK companies that borrowed from banks used CRE as collateral.

UK current account deficit

10. The UK's current account deficit remained large by historical and international standards. Other things equal, the 11% fall in the value of sterling since the referendum, together with an expected weakening in domestic demand relative to growth in the UK's trading partners, would help to smooth the adjustment of the current account over time.

11. But in the interim, financing of the deficit was reliant on continuing material inflows of portfolio and foreign direct investment. To date, there had not been evidence of a large-scale reversal in capital flows, and risk premia on a range of sterling assets had fallen since the July 2016 *Financial Stability Report.* But there had been some signs of a reduction in foreign investor appetite for some types of UK assets. Gross foreign investment in UK CRE assets on average in July and August was less than a third of average monthly foreign investment in 2015. And provisional estimates from S&P Global Market Intelligence suggested that net purchases of FTSE 100 shares by non-residents in July and August were, on average, around half of the average monthly inflows observed in 2015.

12. Given the elevated level of uncertainty around the economic outlook, the risk remained of a fall in overseas investors' appetite to invest in the United Kingdom and consequently tighter funding conditions for the UK real economy.

UK household indebtedness

13. Housing market activity had continued to slow, although by less than suggested by initial indicators of future activity available at the time of the FPC's July meeting. Mortgage approvals for house purchase had fallen to around 61,000 in July, about 5% lower than in June and 12% lower than a year earlier. Three-month-on-three-month annualised house price inflation had fallen to 3.7% in August, down from 4.6% in June.

14. Although the share of households with very high debt-servicing ratios had fallen in recent years, and any slowdown in the housing market could lead to a slowing in aggregate credit growth to households, the level of household indebtedness in the United Kingdom remained high by historical standards. The FPC remained concerned that the ability of some households to service their debts would be challenged by a period of weaker employment and income growth. These vulnerable households could affect broader economic activity by cutting back sharply on expenditure in order to service debts.

15. The FPC intended in November to set out its regular review of the policy measures that it had put in place in the owner-occupier mortgage market in June 2014.[1] These measures had: introduced a limit on the proportion of mortgages that major mortgage lenders could extend at loan to income multiples of 4.5 and above; and set an interest rate stress that mortgage lenders should apply when assessing affordability. They had been introduced to insure against the risk of a marked loosening in underwriting standards and a significant rise in the number of vulnerable households. The FPC's concern at that stage had been that higher levels of indebtedness, for example from continued growth in housing activity and sustained increases in house prices relative to incomes, might make households more likely to encounter payment difficulties in the face of shocks to income and interest rates. The FPC agreed that in reviewing its measures from June 2014, it would need to consider, amongst other things, whether and how to take account of changes since 2014 in the path of interest rates implied by market yields and the need in the current environment for households to be resilient to income shocks.

16. The FPC would continue to monitor buy-to-let mortgage activity, given that any procyclical behaviour of buy-to-let investors could amplify movements in the housing market; it was too early to tell how far buy-to-let activity would be affected by tax changes that came into effect in April 2016 and by the shifting outlook for house price inflation.

17. Members confirmed the Committee's long held view that the persistent gap between the supply of homes and the natural growth in demand was the underlying driver of the rate of UK house price inflation relative to earnings.

Global economy

18. Levels of private and public debt remained high in both emerging and advanced economies. Although the cost of servicing these debts was eased by the low level of interest rates globally, the outlook for nominal growth was weaker, increasing risks to debt-servicing burdens. Global nominal GDP was growing at half the pre-crisis rate.

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[1] In June 2014, the FPC made two Recommendations on owner-occupier mortgage underwriting standards: on mortgage affordability tests and on loan to income ratios. For details of these Recommendations, see the June 2014 *Financial Stability Report*: http://www.bankofengland.co.uk/publications/Documents/fsr/2014/fsrfull1406.pdf

19. In emerging market economies, capital inflows had resumed in recent months, loosening credit conditions; credit spreads on emerging market debt were well below historical averages. In China, credit growth continued to materially outpace GDP growth, though household debt had started from a low level. The rate of total social financing growth, at 13%, was around double that for nominal GDP growth – and both the level and growth of credit relative to GDP were very high by international standards. These developments risked a further build-up of vulnerabilities, which could leave some countries at risk of a tightening in financial conditions. The FPC noted that a crystallisation of these risks would be an important element of the 2016 stress test of major UK banks; the results would be published alongside the *Financial Stability Report* in November.

20. There remained a high degree of political and policy uncertainty in many advanced economies. European bank equity prices reflected continued concerns over banks' profitability – euro-area banks' price-to-book ratios remained very low, at 0.5 on average – and, particularly in Italy and Portugal, high levels of non-performing loans.

21. Taken together, the FPC judged that risks to UK financial stability from the global economy remained elevated.

Financial markets

22. The actions of the Bank's Monetary Policy Committee in August had supported financial stability by reducing downside risks to the near-term economic outlook. Partly driven by these actions, but also by investor perceptions of unusually low volatility, a range of fixed income asset prices appeared elevated. Term and risk premia in bond markets were compressed despite heightened domestic and global uncertainty. In the United Kingdom, estimates of term premia on UK government bonds were low relative to historical averages, and sterling corporate bond spreads had fallen relative to bonds denominated in foreign currencies.

23. Though equity prices had increased since the Committee's meeting in July, over a longer period equity earnings yields had risen relative to bond yields. This was consistent with some combination of lower expectations for future growth and an increase in equity risk premia, perhaps reflecting heightened uncertainty. This change had contributed to higher deficits for defined benefit pension funds given many funds held some equities but discounted their future liabilities based on bond yields.

24. In the event of an increase in global bond yields, the associated move in the price of risky assets, such as equities, would depend on the underlying driver of the change. An increase in growth prospects, for example driven by structural reforms or more expansionary fiscal policy in major economies, might have a relatively benign effect. Though bond prices would fall, higher expectations for growth would act to support the price of risky assets, potentially reversing some of the increase in pension fund deficits. It was possible, however, that a snap back in rates could be associated with a more broad-based adjustment in asset prices. There was a vulnerability that a sharp adjustment could prove disorderly – for example, if asset price falls triggered fund outflows and dealers were unable or unwilling to hold additional bonds as inventory.

Resilience of the UK financial system

Resilience of the UK banking system

25. The resilience of the UK financial system continued to be grounded on substantial capital and liquidity held by the major UK banks. The aggregate Tier 1 capital position of major UK banks in June 2016 was 13.8% of risk-weighted assets, and 4.8% of total assets. These included buffers that had been shown in the Bank's stress tests to enable banks to absorb severe economic and market shocks. On average, major UK banks' Liquidity Coverage Ratios (LCRs) stood at 124% of the outflows expected in a period of stress. This was ahead of the regulatory transition path for the LCR that required firms to reach a standard of 100% by 2018.

26. Banks' substantial capital and liquidity buffers were intended to be drawn on as needed, to allow the banking system to withstand economic and financial shocks without restricting the provision of financial services. This promoted a system that dampened, rather than amplified, the impact of uncertainty and adjustment on the real economy. To support that, in July, the FPC had cut the UK CCyB rate from 0.5% to 0% of banks' UK exposures with immediate effect.

27. Major UK banks' equity prices had risen by 19% on average since the July 2016 *Financial Stability Report*, but they remained almost 20% below levels at the start of the year. Market valuations of major UK banks remained, in aggregate, well below their book value: the average price-to-book ratio for major UK banks was around two-thirds. These valuations appeared in particular to reflect challenges to future profitability, largely arising from redress costs for past misconduct and weak investment banking profitability, rather than from concerns about asset quality. They also appeared to reflect a cost of equity for banks that was estimated to have

remained elevated, despite the historically low prevailing level of risk-free interest rates and the reduction in bank leverage since the global financial crisis.

28. Bank funding costs had remained significantly lower than during previous episodes in which market valuations have been well below book value, underscoring banks' current resilience. Long-term wholesale funding spreads of major UK banks had fallen by around 20 basis points following the announcement of the Term Funding Scheme in August. UK banks' issuance in these markets, including of AT1 debt, had been strong since the announcement, compared with the same month in previous years. Alongside reductions in deposit rates, this indicated that banks' net interest margins had continued to be maintained, even as the reduction in Bank Rate was passed through to lending rates. Still, market prices reflected concerns about future profitability, which would reduce banks' ability to absorb the impact of shocks by retaining earnings. This would be tested as part of the ongoing stress test of major UK banks.

Resilience of market based finance

29. Core financial markets had functioned effectively since July. Volumes of trading in foreign exchange markets, which were extremely high in the run up to and immediately after the referendum, had returned to pre-referendum average levels. Trading in gilt markets had been low, but that was in line with levels typically observed during summer months. And primary issuance of corporate bonds by UK-domiciled firms, supported by the MPC's policy package, had picked up sharply in August relative to previous years.

30. There continued to be a risk that reduced levels of liquidity in fixed income markets would amplify any sharp adjustment in market prices. As described in the July 2016 *Financial Stability Report*, there had been signs of reduced levels of liquidity in bond markets and, in recent years, activity in repo markets had fallen materially. The cost of borrowing in UK term repo markets had increased further since July. In addition, the FPC remained concerned that procyclical behaviour by investors could amplify market price movements.

31. The FPC welcomed the announcement that the Financial Stability Board and its members would undertake further monitoring and analysis on market depth and funding liquidity conditions. This would include a cross-jurisdiction study of developments in repo markets by the Committee on the Global Financial System, given the importance of these financing markets for overall market liquidity and market functioning.

Outlook for financial stability and UK CCyB rate decision

32. Weighing the risks faced by the financial system against the resilience of the system, the FPC judged that the current outlook for financial stability in the United Kingdom remained challenging. In its view, heightened uncertainty about the near-term macroeconomic outlook and the United Kingdom's future relationship with the EU was reinforcing domestic risks.

33. In the light of this, the FPC discussed the setting of the UK CCyB rate. In July, reflecting the challenging outlook for UK financial stability, it had set out that it expected to maintain a 0% UK CCyB rate until at least June 2017, absent any material change in the outlook and given the need to give banks the clarity necessary to facilitate their capital planning.

34. As required by legislation when setting the UK CCyB rate, the Committee reviewed the Basel 'buffer guide' – defined as the difference between the ratio of credit to GDP and a statistical estimate of its long-term trend. This measure remained near its historical low – though, as the Committee had discussed in previous meetings, the long-run trend on which the indicator was based gave undue weight to the period before the crisis and therefore may not be reliable. Annual growth in overall credit to the private nonfinancial sector was 4.0% in 2016 Q2, compared to the growth rate of nominal GDP of 2.9%. The FPC would monitor how this changed, in the context of the challenging environment, as new data became available.

35. There was unanimous agreement, based on its discussion of the outlook, that there was no reason to move from the expectation it had set for the UK CCyB rate in July. The Committee therefore agreed to maintain the UK CCyB rate at 0%. It reaffirmed that it expected to maintain a UK CCyB rate at 0% until at least June 2017, absent any material change in the outlook. It continued to expect that all elements of the substantial capital and liquidity buffers that had been built up by banks were able to be drawn on, as necessary. It also continued to support the clear supervisory expectation of the PRA Board that firms should not increase dividends and other distributions as a result of the UK CCyB rate being maintained at 0%.

The FPC's approach to meeting its responsibilities following the referendum

36. The FPC discussed its approach to meeting its statutory responsibility following the referendum. The FPC's statutory responsibility is primarily to identify, monitor and take action to remove or reduce systemic risks, with a view to protecting and enhancing the resilience of the UK financial system.

37. The FPC would continue to assess the financial stability implications of the United Kingdom's withdrawal from the EU. These would be driven in part by the nature of, and the transition to, the United Kingdom's new relationship with the EU.

38. In the FPC's view, the United Kingdom's position as the leading internationally active financial centre, with a financial system that is, by asset size, around ten times GDP, means that its statutory responsibility is particularly important for both the domestic and global economies.

39. Therefore irrespective of the particular form of the United Kingdom's future relationship with the EU, and consistent with its statutory responsibility, the FPC would remain committed to the implementation of robust prudential standards in the UK financial system. This would require a level of resilience to be maintained that was at least as great as that currently planned, which itself exceeded that required by international baseline standards.

40. The FPC also agreed that it would need to ensure that the regulatory framework continued to evolve alongside international standards and the risk environment. It noted the importance to achieving its statutory objectives of having the macroprudential flexibility to align the resilience of the financial system to the risks that the system faced.

Regular reviews, including of existing Directions and Recommendations

Help to Buy annual assessment

41. The FPC discussed its assessment of the impact on financial stability of the Help to Buy: Mortgage Guarantee scheme (HTB). It had been asked to consider this annually by the Chancellor, and this was its third assessment.

42. The scheme fee did not appear low relative to market pricing. Interest rates on 95% loan to value (LTV) mortgages extended in the scheme had been marginally higher, on average, than comparable loans outside it. Consistent with this, use of the scheme had declined significantly over the past year. In 2016 Q1, loans in the scheme accounted for only 3% of total mortgage lending for house purchase, and 25% of lending at LTV ratios greater than 90%, compared to 6% and 70% respectively in 2014. Although use of the scheme had fallen, total lending at high LTV ratios had not declined. Instead, more high LTV lending had taken place outside of the scheme, as the availability of high LTV products had recovered from its crisis lows.

43. Given these developments, the Committee judged that the closure of the scheme as planned at the end of the year would be unlikely, in current market conditions, to affect significantly the provision of finance to prospective mortgagors.

44. The Committee also judged that the scheme had not posed material risks to financial stability over the past year, for two main reasons. First, loans within the scheme did not appear riskier than high LTV loans outside of the scheme. The cap on scheme loans at 4.5 times borrower income meant that loans in the scheme had not resulted in a build-up in highly indebted households. Mortgages inside the scheme also represented less than 1% of the stock of mortgages and made up a relatively small proportion of large lenders' books.

45. Second, risks to UK financial stability via the impact of the scheme on the wider mortgage market and household indebtedness had been limited. Although the spread between interest rates on 95% LTV loans and 75% LTV loans had narrowed over the past year, it remained well above the average level over the past 20 years. In the Committee's judgement, the scheme did not appear to be a material driver of house price growth (and, so, overall household indebtedness). 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. And the price cap (set at £600,000) did not appear to have had a material influence on the value of properties bought through the scheme. The average value of a property purchased or remortgaged through the scheme was around £155,000, with only 8% of properties worth £250,000 or more.

46. The Committee's full assessment would be published in a letter to the Chancellor alongside the FPC's statement on 22 September 2016.[2]

Existing recommendations

47. *Powers of Direction over housing instruments (14/Q3/1)*: The FPC had been granted powers of Direction over mortgage lending for owner-occupied properties in 2015. The outstanding part of the FPC's Recommendation to HM Treasury related to powers of Direction over buy-to-let mortgage lending. In December 2015, HM Treasury had published a consultation on granting the FPC powers of Direction over buy-to-let lending, along with a draft Statutory Instrument and an impact assessment. The consultation had closed on 11 March. HM Treasury was now in the process of bringing forward a response to the consultation, including final secondary legislation. The FPC would prepare a draft statement of its policy for the use of powers of Direction, to be published ahead of any such powers being approved by Parliament. The FPC agreed to review the Recommendation again in November, following any legislative action.

48. *CBEST vulnerability testing (15/Q2/3)*: Work by the UK authorities (the Bank of England, the FCA and HM Treasury) to develop proposals for embedding CBEST testing into the supervisory toolkit and firms' own regular risk management processes was continuing. In June, the FPC had received a progress update on the authorities' broader work programme designed to enhance financial system resilience; it had asked for a further update in 2016 H2.

49. *Distribution of capital to meet 'fair shares' of systemic buffers (16/Q2/1)*: This Recommendation was made at the FPC's May 2016 meeting to agree the final systemic risk buffer framework. The PRA was consulting on its planned approach to implementing the Recommendation; the consultation was due to close on 7 October, after which the PRA was expected to issue its final policy.[3] The FPC agreed that it would review progress again once the PRA's final policy was in place.

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[2] The Chancellor subsequently confirmed on 29 September 2016 that the scheme would close to new loans at the end of 2016 as planned. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/556650/letter_from_chancellor_to_bank_of_england_governor.pdf

[3] See http://www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp2516.aspx.

50. *Reduction of PRA supervisory buffers reflecting risks that would be captured by a UK CCyB rate (16/Q2/2)*: This Recommendation had been made to the PRA in July 2016 when the FPC had cut the UK CCyB rate to 0%. The PRA had agreed to implement the Recommendation and had published a Statement and letter to firms explaining how their PRA buffers were to be adjusted. Firms had been asked to communicate their updated PRA buffer calculations to the PRA. The FPC agreed that it would now regard this Recommendation as implemented.

51. *Exclusion of claims on central banks from the leverage exposure measure (16/Q3/1)*: The PRA had issued a statement confirming that it would implement the Recommendation, and had invited firms currently subject to the UK leverage ratio framework to apply for a temporary rule modification to that effect. The PRA intended to publish a list of those firms where consent had been given on 29 September, with that list subsequently being updated on a monthly basis as necessary. The FPC agreed that it would regard this Recommendation as implemented. As it had stated in August, the FPC would consult and decide on the appropriate form of recalibration of the UK leverage ratio standard following the exclusion of claims on central banks from the leverage exposure measure as part of its planned review of the leverage ratio framework in 2017.

Written procedure

52. In July 2016, amendments to the Bank of England Act 1998 introduced the ability for the FPC to make decisions by written procedure. These amendments enabled the FPC to take decisions without a meeting if: a majority of eligible members indicated in writing their agreement to the decision; the eligible members who indicated in writing their agreement to the decision would have constituted a quorum at a meeting of the Committee; and any other requirements determined by the Committee were met.

53. The FPC considered whether to set any additional requirements for decisions taken by written procedure. The FPC agreed two additional requirements. First, that the written procedure would only be used for decisions where there had previously been FPC discussion, or decisions that were expected to be straightforward. Second, that where any eligible member dissented, or stated reservations about taking such a decision, as proposed, by written procedure, the matter would be discussed at an FPC meeting or, if appropriate, an alternative proposal would be circulated.

The following members of the Committee were present:

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

As permitted under the Bank of England Act 1998, Anthony Habgood and Tim Frost were also present on 20 September as observers in their role as members of Court.

ANNEX: PREVIOUS FPC POLICY DECISIONS

Outstanding FPC Recommendations

Identifier(*)	Recommendation
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/Q2/3	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.
16/Q2/1	The FPC recommends to the PRA that it should seek to ensure that, where systemic buffers apply at different levels of consolidation, there is sufficient capital within the consolidated group, and distributed appropriately across it, to address both global systemic risks and domestic systemic risks.

(*) Each Recommendation is listed with an identifier to allow tracking of progress. For example, '14/Q3/1' refers to the first Recommendation made at the 2014 Q3 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 (CCyB)	In July 2016, the FPC reduced the UK CCyB rate from 0.5% to 0% of banks' UK exposures with immediate effect. In September 2016, the FPC reaffirmed that, absent any material change in the outlook, it expects to maintain a 0% UK CCyB rate until at least June 2017. This rate is reviewed on a quarterly basis. The United Kingdom has also reciprocated a number of foreign CCyB decisions — for more details see the Bank of England website.[4] Under PRA rules, foreign CCyB rates applying from 2016 onwards will be automatically reciprocated up to 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).[5] In June 2014, the FPC made the following Recommendation (14/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 (14/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,[6] and the FCA has issued general guidance.[7]

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