BANK OF ENGLAND

The Rt Hon Rishi Sunak
Chancellor of the Exchequer
HMT Treasury
1 Horse Guards Road
London
SW1A 2HQ

Andrew Bailey
Governor

25 June 2020

Dear Chancellor,

In my role as Chair of the Financial Policy Committee (FPC), I attach the FPC's formal response to the recommendations set out in your letter of 11 March 2020.

The FPC welcomes the remit and recommendations letter sent by the Chancellor on 11 March 2020.

The United Kingdom is currently experiencing unprecedented economic disruption related to Covid-19.

Consistent with its remit, the FPC has taken action to respond to the financial stability risks associated with the economic disruption resulting from Covid-19. This included reducing the UK countercyclical capital buffer (CCyB) rate to 0% of banks' exposures to UK borrowers with immediate effect on 9 March. In addition, the FPC published an interim Financial Stability Report that presented the Committee's assessment of the risks to UK financial stability and the resilience of the UK financial system to the economic and market shocks associated with Covid-19, based on the illustrative scenario set out in the May 2020 Monetary Policy Report.

These actions, taken in concert with actions taken by the Bank, the Monetary Policy Committee (MPC) and the Prudential Regulation Committee (PRC), have sought to reduce pressure on banks to restrict the provision of financial services, including the supply of credit and support for market functioning, and ensure that the financial system can be a source of strength for the real economy during this challenging period.

As discussed in the May 2020 Monetary Policy Report, there is considerable uncertainty about the future path for the UK economy. It will depend critically on the evolution of the pandemic and the response to it. Given the pace at which the situation is evolving, the FPC will continue to monitor closely the credit conditions faced by UK households and businesses and the operation of the UK financial system, and stands ready to take any further actions deemed appropriate to support UK financial stability.

<u>Matters to be regarded as relevant to the Bank's financial stability objective</u>

The FPC's response to the recommendations made to the Committee about matters it should regard as relevant to its understanding of the Bank's financial stability objective and the responsibility of the Committee in relation to the achievement of the objective can be found in the Annex.

The Government's economic policy

The Committee notes the Government's economic policy and its commitment to UK financial services being effectively regulated as set out in your letter.

The Committee attaches great importance to its secondary objective of supporting the Government's economic policy, and will continue to have regard to the impact of its policies on the Government's economic objectives, the Government's strategy for achieving these objectives, and the recommendations set out in the remit letter. The committee welcomes the recommendations set out in the remit letter and will use its regular communications, including the Financial Stability Report (FSR) to explain how its actions are contributing to the achievement of its secondary objective and how it is managing any potential conflicts between its objectives.

The Committee will routinely assess where it can support the Government's economic objectives, and where it judges that it can do so in a way that will not conflict with its primary objective, the Committee will seek to do so, in a way that is consistent with the recommendations set out in the remit letter.

The Committee's primary and secondary objectives are often complementary. This was evident in the Committee's policy response to the disruption from Covid-19. The Committee reduced the UK Countercyclical Capital Buffer (CCyB) to support the ability of banks to supply the credit needed to businesses and households to bridge through a period of economic disruption[1]. The Committee judged that if banks continued to provide financial services to the real economy this would help households and businesses bridge through the disruption, limiting corporate distress and unemployment, thereby helping to minimise the longer-term impact of any downturn resulting from Covid-19.

The Committee welcomed HM Treasury's and the Bank of England's Covid Corporate Financing Facility (CCFF) which provided help to firms rated investment grade or equivalent prior to being affected by Covid-19 to bridge through Covid-19 related disruption to their cash flows. By providing an alternative source of finance for these companies, the CCFF has helped to retain the capacity of the banking system to lend to a much broader range of companies, including small and medium-sized enterprises. That capacity was further boosted by the reduction in the UK CCyB rate by the Committee (as explained in the paragraph above) and the launch of the Term Funding Scheme (TFSME) by the MPC.

The Committee supported the Prudential Regulation Authority's (PRA's) decision to offer firms a "rule modification by consent" to permit the exemption of loans extended under the UK Government's Bounce Back Loan Scheme (BBLS) from the total exposure measure of the UK leverage ratio requirement. The FPC judged that the indirect benefit to resilience of better macroeconomic outcomes from extra lending was expected to outweigh the small estimates of the direct cost to resilience of a small reduction in the leverage capital requirement, and that the action would be in line with the FPC's secondary objective to support Government economic policy.

[1] Reducing the countercyclical capital buffer supported up to £190 billion of bank lending to businesses (equivalent to 13 times banks' net lending to businesses in 2019).

The Committee also supported PRA's decision to maintain Systemic Risk Buffer (SRB) rates at the level set in December 2019, with the next assessment taking place in December 2021. The Committee noted that this would avoid the temporary inflation in firms' balance sheets involved in banks meeting credit demand from businesses from leading to higher domestic systemic capital surcharges. This would create a financial stability benefit by preserving the capacity of ring-fenced banks and large building societies to continue lending to the real economy through the current challenging period.

The Committee, together with the PRC, is closely monitoring the response of banks to these measures as well as the credit conditions faced by UK businesses and households more generally.

The Committee notes the recommendation to examine how financial regulation and changes to the structure of the financial system may have affected the balance between financial stability and the supply of productive finance, in all regions and nations of the UK, as part of its ongoing work on productive finance.

The Committee has undertaken work to assess the potential financing needs of the UK corporate sector in light of the economic disruption from Covid-19. The analysis was published in the interim Financial Stability Report on 7 May.

The Committee's work suggests that, in the illustrative scenario in the May Monetary Policy Report, additional debt finance may not be the most appropriate form of finance for the £50 billion cash-flow deficit of UK companies. In addition, some companies that have taken on additional debt to bridge through the Covid-19 stress may find their balance sheets to be a constraint on future growth because they may not be able to access additional debt finance.

In both instances, additional equity or equity-like finance could support recovery from the period of disruption and reduce risks in the medium term. The Committee will work with HM Treasury to develop its approach to work on productive finance to support the economy to recover from the Covid-19 stress. The Committee is supportive of the Bank's work with HM Treasury to evaluate the scope for private markets to meet the equity need and, as part of the Bank's ongoing review with the FCA on open-ended investment funds, the Committee will consider how fund design could support the supply of productive finance to the economy through business and financial cycles, in line with the Committee's secondary objective.

Future relationship with the European Union

The Committee will continue to take into account the UK's exit from the EU. As you note in your letter, the FPC is committed to the implementation of robust prudential standards in the UK, irrespective of the particular form of the UK's future relationship with the EU. The Committee will continue to assist the Government in a technical capacity where appropriate as the negotiations for a free trade agreement with the EU and the process of making equivalence decisions progress.

The Committee will continue to assess the potential impact on financial stability of the UK's changing relationship with the EU. In addition, the Committee will have regards to opportunities arising from the UK's exit from the EU when exercising its functions with a view to supporting the Government's economic policy towards the financial services industry, including in relation to competition, innovation, and competitiveness, where the FPC judges that this would not conflict with the achievement of the Committee's primary objective.

Non-bank financial sector

The Committee concurs that the role of the non-bank financial sector in the supply of finance to the economy has grown since the global financial crisis. Furthermore, the very large and sudden changes in the prices of a range of financial assets after the Covid-19 shock and sudden demand for liquidity reflected a number of underlying issues in markets. The Committee agrees it is important to effectively monitor, assess and take action to mitigate risks to the stability from the non-bank financial sector. Following your recommendation, the Committee will publish a more detailed assessment of the oversight and mitigation of systemic risks from this sector and will publish its preliminary findings in the Financial Stability Report in early August 2020. Where appropriate, the assessment will identify gaps in resilience in the non-bank financial sector and the potential measures that may be taken to increase resilience.

Climate change

Climate change represents a material financial risk to firms and the financial system. The Committee agrees that it has a role in protecting and enhancing the resilience of the financial sector to climate risk, and climate change is a strategic priority for the FPC. Whilst Covid-19 represents a present risk, managing the financial stability risks from climate change requires substantial action over time. The Committee therefore welcomes the Bank's intention to continue its work in this area even during the current stress.

Recognising current pressures on firms, and in light of the responses to the December 2019 Discussion Paper on the climate biennial exploratory scenario, the PRC and FPC agreed to postpone the launch of the climate biennial exploratory scenario exercise until at least mid-2021. This delay reflects a desire to maintain the ambitious scope of the exercise, whilst giving firms enough time to invest sufficiently in their capabilities to allow them to deliver to a high standard.

The Committee will continue to regard risks from climate change as relevant to its primary objective, and acknowledges that in the context of its secondary objective, it has a role to play in seeking to support the Government's Green Finance Strategy, which aims to ensure that the financial system is able to act to facilitate finance to support the delivery of the UK's carbon targets and clean growth.

Coordination with the Monetary Policy Committee

The FPC and the MPC will continue to have regard to each other's actions, to enhance coordination between monetary and macroprudential policy. This is facilitated by overlapping membership, joint briefing meetings, etc. – more details of which can be found in the Annex.

A recent example of this coordination was the Interim Financial Stability Report published on 7 May 2020 which presented the FPC's assessment of the risks to UK financial stability and the resilience of the UK financial system to the economic and market shocks associated with Covid-19, based on the illustrative scenario set out in the MPC's May 2020 Monetary Policy Report (that was also published on the same day).

Continued coordination between the two committees will be important in the coming months as we develop our respective policy responses to the evolving risk environment.

Yours sincerely,

Andrew Bailey

BANK OF ENGLAND

FINANCIAL POLICY COMMITTEE RESPONSE TO HM TREASURY'S "REMIT AND RECOMMENDATIONS FOR THE FINANCIAL POLICY COMMITTEE"

On 11 March 2020, the Chancellor set out a series of recommendations to the Financial Policy Committee (FPC) under sections 9E(1) and 9E(2) of the Bank of England Act 1998 ('the Act'). This document provides the Committee's response, in accordance with section 9E(3) of the Act. The response is organised around the sub-headings of the HM Treasury document.

A. The Government's economic policy

The Financial Policy Committee notes the Government's economic policy objective to achieve strong, sustainable and balanced growth, with price and financial stability being essential pre-requisites to achieve this objective in all regions and sectors of the UK economy.

The Committee notes the Government's economic strategy.

B. Matters that the FPC should regard as relevant to the Bank's financial stability objective, and the responsibility of the Committee in relation to the achievement of that objective

The Committee acknowledges the matters that HM Treasury recommends the Committee to regard as relevant to the Bank's financial stability objective. The Committee agrees that it should consider all parts of the UK financial system, prioritising as appropriate, and that is should consider all types of risks to the stability of the UK financial system as a whole or a significant part of that system, including financial and non-financial (such as cyber and operational) risk, prioritising as appropriate. The Committee agrees that the purpose of preserving stability is to contribute to avoiding serious interruptions in the vital functions which the financial system as a whole performs in our economy: notably, the provision of payment and settlement services, intermediating between savers and borrowers, and insuring against risk. These vital functions are recognised in the Bank's Financial Stability Strategy.

In line with the Act, the Committee seeks to further the Bank's financial stability objective primarily by identifying, monitoring and taking action to remove or reduce systemic risk, with a view to protecting and enhancing the resilience of the UK financial system. Those systemic risks include in particular those associated with: structural features of financial markets; the distribution of risk within the financial sector; and unsustainable levels of leverage, debt or credit growth.

The FPC will therefore consider:

i. Prudential risks associated with the banking system;

ii. Prudential risks associated with the non-bank financial system, including markets and infrastructure;
iii. Non-financial risks, including conduct risks, cyber security and climate change; and
iv. Risks from levels of private sector debt that could make the system less resilient and economic growth more fragile.

Risks from the non-bank financial sector

The Committee will, prioritising as appropriate, prepare an assessment detailing the adequacy of: i) the risk oversight system for non-banks, including how well systemic risks are identified and monitored via existing data; and ii) the risk mitigation system for non-banks, including the availability and effectiveness of tools and the UK's framework for dealing with systemic risks. The assessment will set out a list of possible indicators that the FPC could publish regularly to monitor and assess risks from the non-bank financial sector going forward. This assessment will apply to all non-bank financial institutions and the preliminary findings will be published in the Financial Stability Report in early August 2020.

Where appropriate, the assessment will identify gaps in resilience in the non-bank financial sector and the potential measures that may be taken to increase resilience. An example of this approach having been taken by the Committee is in the ongoing review by the Bank and FCA of open-ended funds. The FPC has discussed previously the UK financial stability risks associated with liquidity mismatch in open-ended funds and established three principles for achieving greater consistency between the liquidity of a fund's assets and its redemption terms.

Risks from climate change

Climate change represents a material financial risk to firms and the financial system, and is a strategic priority for the FPC. Whilst Covid-19 represents a present risk, managing the financial stability risks from climate change requires substantial action over time. The Committee therefore welcomes the Bank's intention to continue its work in this area even during the current stress.

Interaction with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) in exercising its functions

One of the Committee's powers is to make Recommendations to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Committee recognises that this role entails making Recommendations on general policies and approaches rather than on actions specific to individual firms. The Committee is briefed on the position of individual firms by the PRA and FCA when relevant to financial stability, as is to be expected given the United Kingdom's currently concentrated banking system.

The Committee recognises that it could, where appropriate, use its Recommendation powers to steer general policies towards types of firms or risks, including the PRA's strategic approach to large systemically important firms, and will do so where appropriate.

The Committee will continue to work closely with the Prudential Regulation Committee (PRC) to ensure coordination between microprudential and macroprudential policy, so far as it is possible while complying with its objectives.

C. The responsibility of the FPC in relation to support for the Government's economic policy

i. Recommendations as to the interaction between the FPC's objectives

The Committee's primary objective is to exercise its functions with a view to contributing to the achievement by the Bank of the financial stability objective. The Act does not require or authorise the Committee to exercise its functions in a way that would in its opinion be likely to have a significant adverse effect on the capacity of the financial sector to contribute to the growth of the UK economy in the medium or long term.

Subject to its primary objective, the Committee has a secondary objective of supporting the Government's economic policy, including its objectives for growth and employment. In practice, actions that seek to protect and enhance the resilience of the UK financial system would be expected to contribute positively to growth over the medium and long term, and therefore FPC’s primary and secondary objectives will often be complementary. Recent experience demonstrates that financial stability is a precondition for sustainable economic growth; a stable and resilient financial system should help to facilitate a sustainable efficient flow of funds within the economy and an effective allocation of savings to investment.

The Committee recognises that action to increase resilience may in some circumstances have a short-term effect on growth, even when that action will make a positive contribution to growth in the medium and longer term. In such circumstances where the Committee faces potential conflicts, it will consider these in light of the recommendations made to it in its remit, and it will manage and communicate its approach transparently and consistently, having regard to proportionality and, where appropriate and practicable, the costs and benefits of its actions in the context of its primary and secondary objectives. More broadly, the Committee will set out how its actions contribute to its objectives, including its judgement as to the balance of risks to those objectives and how those risks have evolved and are expected to evolve.

The Committee will design carefully its policies in pursuit of its primary objective in ways that as far as possible are effective in achieving also its secondary objective. And it will regularly assess its work programme against its secondary objective to consider the extent to which policies in pursuit of its primary objective may also support its secondary objective.

Further, the Committee will routinely assess where it can support the Government’s economic objectives, and where it judges that it can do so in a way that will not conflict with its primary objective, the Committee will seek to do so, in a way that is consistent with the recommendations set out in the remit letter.

ii. Recommendations regarding facilitating finance for productive investment

The Committee acknowledges that Government places a high priority on expanding the supply of finance through the cycle to support long-term investment to increase the productive capacity of the economy, across all regions and nations of the UK. This includes, but is not limited to, areas such as infrastructure, SME finance, venture and growth capital, and finance for decarbonisation to help achieve net zero by 2050.

Some of the Committee's policies to date are likely to provide support for these initiatives directly. The Committee continues to focus on the provision of market-based finance which plays an important role in providing finance to the economy.

The Committee will continue to consider the capacity of the financial sector to supply finance for productive investment when judging whether its actions could have a significant adverse effect on the capacity of the financial sector to contribute to the growth of the UK economy in the medium or long term. The Bank is continuing to undertake further research related to these issues.

The Committee will look at the effects of its policies cumulatively as they are implemented, to consider whether policies designed in pursuit of its primary objective give rise to unintended, undesirable consequences when considered in aggregate.

In this period of disruption due to Covid-19, businesses and households should be able to turn to the banking system to meet their need for credit to bridge through this period of economic disruption. The FPC, together with the PRC, will monitor closely the response of banks to the policy measures taken to increase lending capacity in the banking system (such as the Covid Corporate Financing Facility set up by HM Treasury and the Bank of England) as well as the credit conditions faced by UK businesses and households more generally.

Box 9 in the December 2019 Financial Stability Report set out the FPC's assessment of the supply of finance for productive investment.

The Committee notes that the Bank's work on the Future of Finance[2] was grounded in how finance serves the economy, and included recommendations for the FPC which it is taking forward.

The Committee notes the recommendation to examine how financial regulation and changes to the structure of the financial system may have affected the balance between financial stability and the supply of productive finance, in all regions and nations of the UK, as part of its ongoing work on productive finance.

The Committee has undertaken work to assess the potential financing needs of the UK corporate sector in light of the economic disruption from Covid-19. The analysis was published in the interim Financial Stability Report on 7 May.

The Committee's work suggests that, in the illustrative scenario in the May Monetary Policy Report, additional debt finance may not be the most appropriate form of finance for the £50 billion cash-flow deficit of UK companies. In addition, some companies that have taken on additional debt to bridge through the Covid-19 stress may find their

[2] Future of Finance, Review of the outlook of the UK financial system: What it means for the Bank of England (June 2019)

balance sheets to be a constraint on future growth because they may not be able to access additional debt finance.

In both instances, additional equity or equity-like finance could support recovery from the period of disruption and reduce risks in the medium term. The Committee will work with HM Treasury to develop its approach to work on productive finance to support the economy to recover from the Covid-19 stress. The Committee is supportive of the Bank's work with HM Treasury to evaluate the scope for private markets to meet the equity need and, as part of the Bank's ongoing review with the FCA on open-ended investment funds, the Committee will consider how fund design could support the supply of productive finance to the economy through business and financial cycles, in line with the Committee's secondary objective.

iii. Recommendations regarding support for the Government's economic policy towards the financial services industry

Through discharging its secondary objective - and subject to achieving its primary objective - the FPC will support the Government's policy towards the financial services industry.

In terms of the Government's policy towards competition in the financial services sector, other national authorities will play the primary role. For example, the Competition and Markets Authority is charged with a single primary duty to seek to promote competition, both within and outside the United Kingdom, for the benefit of consumers. The FCA has an objective to promote effective competition in the interests of consumers. And the PRA has a secondary objective to act, as far as reasonably possible, in a way that facilitates effective competition when making policies to advance its primary objectives of safety and soundness, and insurance policyholder protection.

The FPC will, where practicable in the context of its financial stability objective, consider how its policy actions (or decisions not to act) might affect competition, innovation and the international competitiveness of the UK financial system, and climate change.

D. Matters to which the Committee should have regard in exercising its functions

i. Recommendations as to the interaction between monetary policy and macroprudential policy

Monetary policy and macroprudential policy objectives are, in general, complementary. A resilient financial system is a vital precondition for price stability and helps to ensure changes in monetary policy are transmitted to the economy effectively and predictably; price stability contributes to fostering a stable financial system, by removing the distortions caused by varying inflation expectations.

The actions of the FPC can have implications for the objectives of the Monetary Policy Committee (MPC) and *vice versa.* That makes close liaison between the FPC and MPC especially important. As part of the MPC's guidance on the future stance of monetary policy announced in August 2013, the FPC was asked to assess whether the stance of 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. That recognised that monetary policy has an important role to play in mitigating financial stability risks, but only as a last line of defence. The MPC's further guidance on the setting of monetary policy reiterated that this division of responsibilities between regulatory policy and monetary policy would continue once the 7% unemployment threshold was reached, as it was in February 2014, and the financial stability knockout no longer applied.

In reaching its decisions, the Committee considers the policy settings and forecasts of the MPC, as first explained in its June 2013 Financial Stability Report (FSR).[3] The FPC's consideration of potential financial stability risks stemming from the UK housing market, and subsequent action, provides an example of this. More recently, the Interim Financial Stability Report published on 7 May 2020 presented the FPC’s assessment of the risks to UK financial stability and the resilience of the UK financial system to the economic and market shocks associated with Covid-19, based on the illustrative scenario set out in the May 2020 Monetary Policy Report (MPR) (that was also published on the same day). The Committee will continue to explain how it has regard to the stance of monetary policy and the MPC's forecasts.

More generally, overlapping membership of the Committees should foster coordination. This is enhanced by the sharing of relevant information, briefing and analysis to all members of both Committees. For example, FPC and MPC members are free to attend the other Committee's briefing meetings. The Committees also have joint discussions where the circumstances warrant it. For example, joint briefing meetings have been held on topics of mutual interest such as the effect of low long-term interest rates, the channels through which adverse economic shocks could arise following United Kingdom’s withdrawal from the European Union and transmission channels via which a sharp slowdown in China and Hong Kong could adversely affect UK GDP growth.

ii. Recommendation that the FPC have regard to risks to public funds

As recommended, the Committee considers material risks to public funds arising from its actions to support resilience, or failure to take such actions, in both the short and long run. It seeks to minimise overall risks to public funds in this context where consistent with its statutory objectives, and takes account of any such risks in formulating its actions.

Staff from the Bank, including the PRA, and the FCA brief the Committee on developments that are relevant to financial stability including, as appropriate, the position of individual financial institutions. The Bank executive will alert the FPC to any public funds notification to the Chancellor that, in its judgment, is relevant to the exercise by the Committee of its responsibilities and functions under the Act. Where the FPC is notified, the Committee's briefing will include an assessment of the implications for systemic stability of the failure or distress of the institution in question given its circumstances.

[3] Box 3 of the June 2013 *FSR* discusses how the FPC has regard to the policy actions of the MPC: http://www.bankofengland.co.uk/publications/Documents/fsr/2013/fsrfull1306.pdf.

iii. Recommendations to the Treasury on legislative changes

The Act provides for the Committee to make recommendations to HM Treasury relating to the boundaries between and within regulated activities and products. The FPC will generally make such recommendations only where it identifies systemic risks that cannot otherwise be addressed.

The Committee has an established process to assess such systemic risks from market-based finance. It receives regular briefings from the Bank, the PRA and the FCA on potential risks to financial stability presented by different sectors and activities. It also holds, at least annually, a dedicated discussion on these risks. And it undertakes a regular deep analysis of certain market-based finance activities that merit further investigation. The FPC draws on this analysis to inform its judgement on the appropriate boundaries around, and within, the regulatory perimeter.

Were the Committee to make a recommendation to HM Treasury in this area, it would, as recommended, provide evidence to explain why a change to the perimeter was a necessary and proportionate response to the risks it had identified, and an explanation of why existing provisions were insufficient.

iv. Recommendations regarding enhancing the accountability of the FPC

The Committee is accountable to Parliament and the public. FPC members are subject to a clear code of conduct and a separate statutory conflict of interest code of practice designed to preserve the Committee's reputation for integrity and independence of judgement. Members need to be, and be seen to be, independent of Government and other influences. To promote accountability, all FPC members stand ready to give evidence to the Treasury Committee, including by giving evidence following each FSR. As required by the Act, the Governor also meets with the Chancellor after each FSR to discuss matters relating to the stability of the UK financial system, with a public record of the meeting published within six weeks.

Consistent with its statutory objectives and functions, the Committee recognises the importance of reducing uncertainty and boosting confidence in the financial system through its actions. To that end, it is continuing to develop its published indicators, which appear in its policy statements on how it uses its tools, and which it publishes regularly. As it set out in the June 2018 Financial Stability Report (Box 6), to review and update its core indicators, it will consider the evolution of the financial system, improvements in data availability and quality, and new research. These indicators are considered alongside a wider set of information, varying over time depending on emerging risks, including market and supervisory intelligence. And the Committee will explain its decisions and judgements in the context of both this analysis and its published indicators.

Annual concurrent stress tests of banking sector resilience are also a key element of the Committee's approach to increasing confidence in the financial system. Concurrent stress testing exercises have now taken place each year since 2014 and the first biennial exploratory scenario was completed in 2017. However, following the disruption from Covid-19, the Committee, alongside the Prudential Regulation Committee (PRC) cancelled the 2020 annual concurrent stress test to help lenders focus on meeting the needs of UK households and businesses via the continuing provision of credit. In addition, the Committees paused the publication of the next stage of the 2019 biennial exploratory scenario on liquidity until further notice and postponed the launch of the climate biennial exploratory scenario exercise until at least mid-2021.

The Committee carried out a desktop stress test using the illustrative economic scenario outlined in the May 2020 Monetary Policy Report. The results of this were published in the Interim Financial Stability Report in May 2020.

The Committee agrees on the importance of clear and consistent communication, especially on decisions reached by consensus. The Committee will use its communications to explain how its actions have contributed to the achievement of both the Bank of England’s Financial Stability Objective and have supported the economic policy of the Government.

The Act (paragraph 11 (4) of the Schedule 2A) requires the Chair of a meeting of the Committee to seek to ensure that decisions are reached by consensus where possible. The Record of the FPC's policy meeting will continue to reflect the deliberations of the Committee in reaching a consensus to ensure that its decision making is transparent and accountable. As set out in the Record of the Committee's March 2015 meeting, this will include the range of views expressed in the FPC's regular briefing and issues meetings ahead of its policy meetings, in the event that these played a role in the forming of a consensus. Where a consensus cannot be reached, the results of any vote, including individual members' votes and the balance of arguments, will be set out in the Record of the meeting; and members will be free to explain their vote subsequently. In such circumstances, the Committee will seek to ensure that its communications avoid uncertainty.

As set out in the Record of the Committee's November 2015 meeting, while the legislation requires the Chair of a meeting of the Committee to seek decisions of the Committee to be reached by consensus wherever possible, the discrete nature of the decision on the countercyclical capital buffer (CCyB) may not always lend itself to a consensus-based process. The legislation allows the Committee to vote on the setting of the CCyB when the Chair forms the opinion that consensus cannot be reached. As agreed at that meeting, the Committee will be flexible in its approach to deciding how to set the buffer.

v. <u>Recommendations as to engagement with financial sector participants and other external experts</u>

The FPC will continue to fulfil its statutory responsibilities in an open and collaborative fashion, seeking the views of industry participants, academics, other regulators and the public, as appropriate, to supplement its own expertise, and will further develop structures to do so.

When it consults publicly, the FPC will generally endeavour to continue to align the length of the consultation to the context, complexity and impact of its proposals.

There may be cases where urgent action is required in order to protect and enhance the stability of the UK financial system - either directly or because implementation of the policy with a lag could bring about precisely the action that the Committee was seeking to avoid. In such cases, it may be appropriate for the Committee to act without, or with abbreviated, consultation. When deciding whether and how to engage with external experts, the Committee will give careful consideration to whether the publication of a contemplated future policy action could give rise to actions aimed at avoiding future requirements, regulatory arbitrage, or financial sector participants taking other actions that could lead to risks to financial stability.