Bank of England

The Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HMT Treasury
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Andrew Bailey
Governor

13 December 2022

Dear Jeremy

In my role as Chair of the Financial Policy Committee (FPC), I attach the FPC's response to the recommendations set out in your letter of 17 November 2022 as well as the recommendation in relation to the Government's energy security strategy set out in a letter from the previous Chancellor on 7 April 2022. The FPC welcomes the recommendations made, and their response can be found in this letter and the Annex.

Following on from a period of significant global economic disruption from the Covid pandemic, economic conditions have deteriorated and inflation has increased substantially since Russia's illegal invasion of Ukraine. Geopolitical tensions remain heightened and the deterioration in the economic outlook, alongside tighter global financial conditions, is likely to continue to weigh on households, businesses and governments globally.

The intensification of inflationary pressures, and the associated tightening in financial conditions have led to challenging conditions for many households and businesses in the UK. Falling real incomes, increases in mortgage costs and higher unemployment will place significant pressure on household finances, and weigh on their ability to service debt. UK corporates are also facing pressures from rising interest rates, weaker earnings, and continued supply chain disruption.

However, the UK banking system has capacity to support lending to UK households and businesses and the FPC continues to judge that banks are resilient even if conditions were to be worse than forecast. Major UK banks' capital and liquidity positions remain strong and their pre-provision profitability has increased.

There is evidence that the major UK banks are tightening their lending standards by adjusting their appetite for lending to riskier borrowers. So far, this tightening appears commensurate with the worsening macroeconomic outlook. To help ensure major UK banks will continue to have the resilience to lend in stress, the FPC has maintained a neutral setting of the UK countercyclical capital buffer (CCyB) rate at 2% since July 2022, having gradually increased it from 0% in December 2021.

The latest Financial Stability Report (FSR), published today, highlights that there are a number of risks to the financial system. In reaching its decisions, the FPC will continue to have regard to the policy settings and forecasts of the MPC. The Committees are able to discuss areas of mutual interest, and have done so recently, in view of the current environment.

As part of its responsibilities, the FPC has previously identified a number of vulnerabilities in market based finance – a sector of increasing importance to the real economy. These vulnerabilities have become apparent in recent years; during the ‘dash for cash’ episode in March 2020, in the commodity markets following Russia’s invasion of Ukraine in February 2022, and more recently, in the UK government bond markets in September 2022.

As you note in your letter, the Committee attaches a high priority to supporting the work undertaken by the Bank and Financial Stability Board (FSB) to address vulnerabilities in market based finance that could affect financial stability, and will continue to ensure the Bank coordinates with the relevant regulatory authorities and across jurisdictions.

In 2023, international and domestic regulators urgently need to develop and implement appropriate policy responses to address the risks from market based finance. Alongside international work, the Bank will continue to work to reduce vulnerabilities domestically where it is effective and practical.

In September, for example, the FPC recommended that action be taken in response to the threat to UK financial stability from strains in the UK government bond market, and welcomed the Bank’s temporary and targeted intervention to restore market functioning and provide time for Liability Driven Investment (LDI) funds to build their resilience.

Given the identified shortcomings in previous levels of resilience, and the challenging macroeconomic outlook, the FPC has now recommended that regulatory action be taken, as an interim measure, by The Pensions Regulator (TPR), in coordination with the FCA and overseas regulators, to ensure LDI funds remain resilient to the higher level of interest rates that they can now withstand and defined benefit pension scheme trustees and advisers ensure these levels are met in their LDI arrangements.

The FPC will also continue to monitor vulnerabilities in non-bank financial markets, within and outside the regulatory perimeter, and assess and develop policy responses. As part of the work to support the FPC's approach to scanning and assessing risks, the Bank will run an exploratory scenario exercise focused on risks from non-bank financial institutions.

And, in order to improve resilience of the energy markets, HM Treasury and the Bank jointly launched the Energy Markets Financing Scheme in October this year. The FPC continues to monitor energy markets closely.

The Committee is fully committed to supporting the Government's economic policy and thereby the FPC's secondary objective. The update of the leverage regime in 2021 is a key example of this. The Committee will continue to routinely assess, as an important element of its work, where it can support the Government's economic objectives. Where it judges that it can do so in a way that is consistent with its primary objective, the Committee will act accordingly.

As part of its work on the secondary objective, the FPC will continue to consider how the UK financial system might best be able to intermediate the supply of finance for productive investment to support long-term sustainable growth. The FPC has welcomed the progress by the Productive Finance Working Group in developing solutions to the barriers to investment in long term, less liquid assets. This work makes an important contribution towards supporting the supply of long-term capital.

The FPC welcomed the Financial Services and Markets Bill as introduced on 20 July 2022, which outlines, amongst other things, how the UK's financial services regulatory framework should adapt for the future, and in particular to reflect the UK's position outside the European Union. The FPC supports the measures contained in the Bill to implement the outcomes of the Future Regulatory Framework Review, and the need to align with international standards to deliver UK financial stability.

The Committee also welcomes the Chancellor's commitment to the effective regulation of financial services and the operational independence of the Bank of England. The operational independence of the Bank of England and regulators is an essential underpinning for the FPC's primary objective to deliver UK financial stability and subject to that, supporting the government's economic policy objective of achieving strong, sustainable and balanced growth, and is also a crucial component of the UK's attractiveness to internationally active financial institutions.

Yours sincerely,

Andrew Bailey

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

On 17 November 2022, 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 and the accompanying cover letter, provide the Committee's response, in accordance with section 9E(3) of the Act. The response is organised around the subheadings of the HM Treasury document.

In addition, the previous Chancellor set out a recommendation in relation to the Government's energy security strategy on 7 April 2022. As that recommendation was replaced by the recommendations in the Chancellor's November letter, this document and the cover letter also constitute the Committee's response in accordance with section 9E(3) of the Act.

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 parts of the UK and sectors of the 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 it 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.

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, such as conduct risks, cyber security and climate change; and

iv. Risks from growth of private sector debt that could make the system less resilient and economic growth more fragile.

As part of its responsibilities, the FPC identifies, monitors and takes action to remove or reduce systemic risks in the system of market-based finance, including the non-bank financial intermediation (NBFI) sector.

The FPC published an update on its market-based finance agenda in the summer 2021 Financial Stability Report which highlighted that further reforms were required in a number of areas, including to address structural liquidity mismatches, risks arising from margin requirements and margin calls, and risks arising from leverage in non-bank financial institutions.

In July 2021, the conclusions from a joint Bank and FCA review of liquidity management in UK open-ended funds were published. The Bank and FCA also jointly issued a discussion paper on the resilience of money market funds in May 2022.

Episodes of volatility in financial markets, such as the ‘dash for cash’ in March 2020, and more recently during the repricing of UK financial assets (in particular affecting long-dated UK government bonds) in late September 2022, have underlined the importance of continuing to improve the overall resilience of market-based finance.

During the recent repricing in the gilt market, the FPC assessed the risk to UK financial stability, recommended that action be taken, and welcomed the Bank’s plan for temporary and targeted purchases in the gilt market on financial stability grounds.

The vulnerabilities recently exposed by the gilt market dysfunction share characteristics with those in the non-bank financial system previously identified by the FPC. The FPC welcomed the FSB’s recent progress report to G20 leaders and the proposed work plan for 2023, which is developing policy recommendations that seek to address vulnerabilities.

The FPC also continues to carry out horizon scans across a wide range of non-bank activities and markets – within and outside the regulatory perimeter – in order to facilitate ongoing vigilance of a broader set of risks in the sector. The Bank will run an exploratory scenario exercise focused on exploring risks from NBFIs.

Specifically in relation to LDI funds, there is a clear need for urgent and robust measures to fill regulatory and supervisory gaps to reduce risks to UK financial stability, and to improve governance and investor understanding. It is important that these funds maintain financial and operational resilience to withstand severe but plausible market moves, including those experienced during the recent period of volatility. This should include robust risk management of any liquidity relied upon outside LDI funds, including money market funds. The FPC has welcomed, as a first step, the recent guidance published by TPR in this regard. The FPC also welcomed the recent statements by the FCA and overseas regulators on the resilience of LDI funds.

The FPC has also recommended that regulatory action be taken, as an interim measure, by TPR, in coordination with the FCA and overseas regulators, to ensure LDI funds remain resilient to the higher level of interest rates that they can now withstand and defined benefit pension scheme trustees and advisers ensure these levels are met in their LDI arrangements.

Following this, regulators should set out appropriate steady-state minimum levels of resilience for LDI funds, including in relation to operational and governance processes and risks associated with different fund structures and market concentration. Further steps will also need to be taken to ensure regulatory and supervisory gaps are filled, so as to strengthen the resilience of the sector.

The Bank will continue to work closely with domestic and international regulators so that LDI vulnerabilities are monitored and tackled.

The Committee continues to regard the risks from climate change as relevant to its primary objective. To better assess these risks, alongside other steps, the FPC and Prudential Regulation Committee (PRC) launched a climate change focused Biennial Exploratory Scenario exercise (CBES) on 8 June 2021 and published results on 24 May 2022. The CBES has shown the breadth and size of potential risks and has been an important learning exercise, for participating banks, insurers and the Bank.[1] The CBES also helped the Committee to assess how participating UK banks and insurers might seek to adapt their business models in the face of different climate scenarios.

Through the CBES, the FPC gained insight on some aspects of the financial system's approach to the transition to net zero. Notably, the exercise highlighted the risks that finance could be withdrawn from carbon intensive firms before compensating renewables were in place or energy efficiency measures had reduced demand – with potential economic and energy security consequences. This exercise is part of the work undertaken by the Bank which reflects the important role the financial system plays in supporting the UK's energy security, as part of the UK's pathway to net zero.

Relatedly, and in line with its secondary objective, the FPC's work to support finance for productive investment can support sustainable investment in areas such as renewable energy infrastructure and green technologies.

The Committee has highlighted that the collective understanding of how nature loss and degradation could give rise to financial risks is in its infancy globally. The Bank is building its understanding of how risks might arise, their potential materiality for UK financial firms and, in turn, the broader UK financial system.

As part of its responsibilities, the FPC is monitoring risks to financial stability that could arise from cryptoassets, their associated markets and the adoption of the underlying technology.[2] The Committee has also considered the need for the regulatory system to adapt so the public can have similar confidence in new forms of digital money as in existing forms, allowing them to be widely used and trusted.

In addition, the Committee has been supportive of the work of the HM Treasury-FCA-Bank Cryptoasset Taskforce on assessing the regulatory approach to cryptoassets and their associated markets and activities in order to shape developments in this space and support safe innovation. The Committee has also judged that where crypto technology is performing an equivalent economic function to one performed in the traditional financial sector this should be subject to equivalent regulatory outcomes, and will continue to engage with HMT and FCA with regard to potential changes to the regulatory perimeter, where appropriate.

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

[1] See **Results of the 2021 Climate Biennial Exploratory Scenario (CBES) | Bank of England**

[2] See **Financial Stability in Focus: Cryptoassets and decentralised finance | Bank of England**

stability, as is to be expected given the United Kingdom's currently concentrated banking system. Recently, the Committee has been working closely with the FCA on the Bank and FCA joint review of money market funds.

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. The Committee coordinated with the PRC on the leverage ratio review in 2021 and, more recently, ahead of the latest review of the leverage ratio Direction in Q3 2022.

The Bank will also continue to work in an open and collaborative way with other relevant bodies, including the Pensions Regulator and the Payments System Regulator, for the purpose of pursuing its financial stability objective.

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 the FPC’s primary and secondary objectives will often be complementary. Financial stability is a precondition for sustainable economic growth; a resilient financial system should help to facilitate a sustainable and efficient flow of funds within the economy and an effective allocation of savings to investment.

Recent changes have been made to how the Other Systemically Important Institutions (O-SII) buffer framework operates in order to mitigate the risk that future changes in central bank balance sheets inadvertently affect banks’ lending decisions, whilst keeping the overall resilience provided by the framework unchanged.[3] Another example is the FPC’s update of the leverage regime. As explained in the 2021 consultation paper on changes to the leverage ratio framework[4], the Direction is expected to contribute positively to supporting economic activity by increasing the robustness of the regulatory framework in a proportionate way – for example, smaller, domestic firms

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[3] See **An FPC Response - Amendments to the FPC's framework for the O-SII buffer | Bank of England** and box 1A in **The Financial Policy Committee’s framework for the systemic risk buffer - updated May 2022 (bankofengland.co.uk)**

[4] **PS21/21 | CP14/21- The UK leverage ratio framework | Bank of England**

whose individual failure is not likely to represent a systemic risk to UK financial stability are not captured by the Direction. The FPC reviewed the appropriateness of the leverage ratio regime – including in light of its secondary objective in Q3 2022.[5]

In addition, in relation to the housing market, the FPC considered the potential impacts of withdrawing the affordability test on mortgage market access ahead of its decision to withdraw the affordability test Recommendation in June 2022. Bank staff analysis showed that the vast majority of renters who were unable to buy the median-valued first-time buyer home in their area were constrained by factors other than the FPC's Recommendations. The Committee will continue to regularly review the calibration and implementation of its remaining mortgage market recommendation, and to monitor its effect on first-time buyers' access to the mortgage market.

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.

Further, the Committee will routinely assess, as an important element of its work, where it can support the Government's economic objectives. Where it judges that it can do so in a way that is consistent with its primary objective, the Committee will act accordingly, in a way that is consistent with the recommendations set out in the remit letter.

ii. 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 economic policy towards the financial services industry, including the areas of the Government's strategy for financial services, as set out in the remit letter, in relation to openness and competitiveness; competition and innovation; climate change and energy security; and home ownership.

The FPC will, where practicable in the context of its financial stability objective, consider how its policy actions or decisions might affect these areas.

The Committee will use its regular communications to outline how it is able to support these areas in a way which is consistent with its objectives.

iii. Recommendations regarding facilitating finance for productive investment

The Committee will continue acting with a view to facilitating the supply of finance for productive investment provided by the UK's financial system, where doing so does not conflict with the achievement of the Committee's primary objective. The Committee acknowledges that this should, where possible and appropriate, include supporting the

[5] **Financial Policy Summary and Record of the Financial Policy Committee meeting on 30 September 2022 (bankofengland.co.uk)**

supply of long-term capital and the successful delivery of the Long-Term Asset Fund (LTAF) structure.

Some of the Committee's policies to date, as well as its continued support of the Productive Finance Working Group[6], support these objectives directly.

The Productive Finance Working Group is an industry group that aims to develop practical solutions to the barriers to investment in long-term less liquid assets. Appropriately managed, investment in less liquid assets could benefit investors and the broader economy by supporting the supply of long-term capital, financial stability and transition to net zero (in line with the FPC's primary and secondary objectives). The FPC has, therefore, welcomed the establishment and continued progress by this Group, including its October 2021 report.[7]

Most recently, the FPC has welcomed a suite of materials published by the Working Group in November 2022. It includes the first comprehensive set of guides for the UK Defined Contribution (DC) pension schemes' decision makers, focusing on the key considerations around investment in long-term, less liquid assets, as well as a call to action to investment platforms. These materials make a significant contribution to raising awareness of these considerations in an increasingly important sector for saving for retirement that invests relatively little in these asset classes. This work could, therefore, support the supply of long-term capital and the successful delivery of the LTAF structure.

The Committee will continue to consider the impact of its policy actions on the ability of the financial sector to provide finance for productive investment. It will also have a continued focus on the provision of market-based finance which plays an important role in providing finance to the economy, and, continue to undertake research on these issues.

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 resilient 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.

In reaching its decisions, the Committee considers the policy settings and forecasts of the MPC, as first explained in its June 2013 FSR.[8] The FPC takes into consideration the MPC's forecasts in its discussions of the macro-economic back-drop, including in

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[6] An industry working group established by the Bank of England, HM Treasury and the FCA.

[7] See **A roadmap for increasing productive finance investment | Bank of England**

[8] 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**.

the most recent November 2022 MPR. 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 able to attend the other Committee's briefing meetings. The Committees are able to jointly discuss areas of mutual interest, and have done so recently on the impact of household indebtedness on consumption, in view of the current environment.

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.

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 dedicated discussions 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 any such areas, 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 FSR (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 the analysis of this information.

Concurrent stress tests of banking sector resilience are also a key element of the Committee's approach to increasing confidence in the financial system. Regular concurrent stress testing exercises began in 2014 and the first biennial exploratory scenario was completed in 2017. Following that there have been publications of a desktop stress test in May 2020, a 'reverse stress test' in August 2020, a solvency stress test in 2021, and most recently, the results of the CBES were published in May 2022. In addition, the 2022 cyber stress test is currently underway and the 2022 annual cyclical scenario has also been launched.

On the mortgage market, the Committee has committed to periodically review its Recommendations. It recently reviewed the mortgage market Recommendations and published conclusions earlier this year.[9]

The Committee agrees on the importance of clear and consistent communication, to support both public confidence in the financial system and build public trust in the Committee's actions. The FPC Record gives a full summary of Committee deliberations, including differences of views amongst members, and plays an important role in public accountability. 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. Recommendations as to engagement with financial sector participants

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.

[9] See **Withdrawal of the FPC's affordability test Recommendation | Bank of England**.

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.