



## Treasury Committee

Oral evidence: [Bank of England Bill, HC 445](#)

Thursday 22 October 2015

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Members present: Mr Andrew Tyrie (Chair), Mark Garnier, Helen Goodman, Stephen Hammond, George Kerevan, John Mann, Chris Philp, Mr Jacob Rees-Mogg, Wes Streeting

Questions 271 - 341

Witnesses: **Rt Hon George Osborne MP**, Chancellor of the Exchequer, and Charles Roxburgh, Director General, Financial Services, HM Treasury gave evidence.

**Q271 Chair:** Chancellor and Mr Roxburgh, thank you both very much for coming to give evidence to us this morning, largely about the Bank of England Bill. As I am sure you will understand, there have been two major economic events, both related to the work of the Bank of England, in the past 24 hours. One is on retail banking competition and the other is on Europe, with an intervention by the Governor in a speech in Oxford yesterday and widely reported in the press today. It is with that I would like to begin. The UK, he says, has been a leading beneficiary of the four freedoms: goods, services, capital and labour. Do you agree with that?

**Mr Osborne:** I agree with the speech the Governor made and the analysis he presents, which is that European Union membership has helped create a more open and dynamic UK economy, but—and there is a crucial “but”—developments in the eurozone mean that we do need safeguards for the United Kingdom. That, to my mind, goes directly to why we are having this renegotiation.

**Q272 Chair:** I was really asking a question about the four freedoms. Why don't I relate it more directly to capital and labour? The EU, in the wake of the crash, decided to activate its powers with QMV to extend the single market, much more vigorously in the field of financial regulation. Has that been overall good or bad for the UK?

**Mr Osborne:** Overall, it has been good. As the largest provider of financial services in Europe, it has been good for our firms and our employees to have access to a single market. Again, as the Governor points out, it is not an unalloyed good. It has presented challenges, and I thought the Governor made a very compelling point about, for example, the bonus regime, which was introduced through QMV and has actually made it more difficult to claw back money from bankers who get things wrong. But, yes, the single market in financial services is, on balance, a good thing for the UK.

**Q273 Chair:** He also put quite a bit of emphasis on the gains that we have had from labour market mobility and immigration. Do you agree with that, too?

**Mr Osborne:** He makes the observation that immigration adds mechanically to GDP, but cites also, particularly in the report, the studies that have been undertaken into the depressing effect it can have on wages. He draws attention to the pluses and minuses, if you like, of immigration. Of course, the Government's position is not that we are against immigration. We are for controlled immigration, and we are seeking to make sure that it is not welfare tourism; in other words, people cannot just come and claim benefits. That is why we focused on that as part of our renegotiation.

**Q274 Chair:** Financial firms have complained to me, probably to other members of this Committee and certainly to the last Committee that they were having trouble getting people in past the visa requirements and the restrictions to fill jobs. Are these complaints that you have heard?

**Mr Osborne:** Not in any particularly compelling way, to be honest. I think we can have the best of both worlds, if we get this right. We can have an immigration system that welcomes people who have a huge amount to contribute to our economy, but we will not accept people who are simply going to come and be a burden on our economy. Our visa requirements, such as, for example, that you have to demonstrate that you can earn a certain income going forward, aim to get that balance right. The bigger picture is this: the Governor of the Bank of England, who is independent, who is not a British citizen, who has come from Canada, has made an assessment of our membership of the EU. His assessment is that it is contributing to our open and dynamic economy, but there are real challenges as the eurozone continues to integrate and Britain needs safeguards. That is precisely why we are undertaking this renegotiation. It is therefore a very welcome addition to the debate we are having in this country on our membership of the EU and the merits of the renegotiation we are undertaking.

**Q275 Chair:** Can I turn to the retail banking competition investigation? The CMA was concerned enough to say, about the bank surcharge, that it is going to investigate further its effects on retail competition at the new entrant part of the market. Before you introduced the surcharge, did the Treasury do any work to examine the effects on competition for banks, especially for new entrants?

**Mr Osborne:** Yes, of course. Before we introduced the tax, we assessed the impact it would have on those we would be asking to pay the tax. That is why we introduced the £25 million threshold; in other words, that is the amount of profit you can earn before you pay the tax. That, of course, takes some of the smaller players out of the tax altogether. It is worth reminding people of this. This tax rate, which will be 26% once our changes to the headline corporation tax rate take effect, will still be the lowest in the G7.

This remains a highly competitive place to grow your business and set up a bank. It sits alongside all sorts of other things we have done for challenger banks to make it easier to enter the market, to try and break up that oligopoly we saw five or six years ago. That is why we have on our high street new names, like Metro, Aldermore and Virgin Money, beneficiaries of Government divestments of banks like Northern Rock, beneficiaries of our

independent regulators making it easier for challenger banks to enter the market, and beneficiaries of a Government that is promoting competition in the financial services.

**Q276 Chair:** Will you make that work you did—the examination of new entrant competition and its relationship to the tax changes—available to the CMA?

**Mr Osborne:** We certainly have handed over any information the CMA has asked of us, and we will continue to do so in the future.

**Chair:** We would like you to do that. If you have any difficulties about handing it over to them, then we would like to see it.

**Mr Osborne:** Can I make this point? The Competition and Markets Authority was created by this Government to promote competition. It is a powerful promoter of better services for customers in our country. Today's report is an excellent report, which points to what more we can do to give people real choices about whom they bank with and the deal they get when they do their banking.

**Q277 Chair:** Okay, we have got your view on that loud and clear. Do you think there is a case for raising the threshold, bearing in mind that most of the complaints are coming from banks just above the £25 million, and recouping the lost cash through what would be a very small further increase in the surcharge for the rest of the industry?

**Mr Osborne:** I keep all taxes under review. That is the standard line from a Chancellor. But, in this case, I think we have got the judgment pretty much right.

**Chair:** A good number of people in those small, new entrant organisations will have heard that.

**Q278 Wes Streeting:** Chancellor, this morning, on the *Today* programme, Lord Lawson said that the Governor's speech was regrettable and that he had waded in, in a political way, to a highly sensitive issue. Do you agree with that assessment?

**Mr Osborne:** No. Nigel clearly has a very strong view on our membership of the European Union and was probably a bit disappointed that Mark Carney did not agree with him.

**Wes Streeting:** Fair enough, I agree with you. I thought you might say that.

**Mr Osborne:** That is how I feel this Parliament is going to develop.

**Q279 Wes Streeting:** Leave the love-bombing for outside the Committee, please, Chancellor. One thing that did strike me, reading the Governor's speech—I have not had time to read the full document that the Bank has produced—is that, when he talks about principles of a new settlement for financial stability, the impact of the eurozone on our economy and the need for reform, it seems to me that, in the principles he set out, he has been a lot clearer about his vision for EU reform than either you or the Prime Minister have. Do you think that is a fair criticism?

**Mr Osborne:** No. He is addressing a very specific point, if you read his speech, and that is repeated in the document. He is saying, "I am addressing the banks' responsibilities for

financial stability and how they are affected by membership of the European Union.” That is his analysis. He is not trying to do a broader piece about EU membership. The conclusions he comes to are not specific in the sense of, “Therefore, Article X in the Treaty of Rome must change”, or whatever. He is setting out, essentially, the principles of a renegotiation. There need to be safeguards for non-euro members. We have to recognise the fact that the EU is a multicurrency union, he says. Those are exactly observations that I have made in public as well.

**Q280 Wes Streeting:** Since you have agreed with those principles in response to the Chairman, perhaps you could be a bit clearer about the specifics. What will you be seeking in terms of the renegotiation, specifically around the impact on the banking system and the economic dimensions of the renegotiation?

*Mr Osborne:* A very important part of the renegotiation is around the relationship between non-euro members and euro members, which is not properly accounted for in the current treaties. That is recognised by people like the German Finance Minister as well as me.

**Q281 Wes Streeting:** That is a principle approach and the Governor was clear about that, but specifically, therefore, to achieve what the Governor set out, what specifically would you be pushing for?

*Mr Osborne:* That leads us to believe that you need to create these safeguards. You need to allow the eurozone to integrate, as I have said many times before in this Committee, but in a way that does not act to the detriment of non-euro members. Designing those safeguards is precisely the substance of the renegotiation and it is what we are in technical discussions now with the Commission about. We are not looking for special deals or carve-outs for the City of London. We are looking for a fair deal for non-euro members, including the United Kingdom, and that is the approach we are taking.

**Q282 Wes Streeting:** What might that look like specifically? You are setting out a principle view that is reflected in the Governor’s speech and I do not think many people around here would disagree with you. The frustration is, and this is reflected not just domestically but across Europe, there is a complete lack of clarity about the Government’s position on renegotiation in broad terms, but, in the context of our conversation this morning specifically, I have not yet heard you spell out one thing that you would like to see achieved through the renegotiation in specific terms.

*Mr Osborne:* Very specifically, if you want a specific example, we do not want to be part of ever closer union. There is a specific change we want. In this space, around euro membership and non-euro membership, we are getting into specific discussions now, technical discussions with the Commission and the Council. We are going to set out in more detail, as the Prime Minister said in a letter to the President of the Council, what we are seeking in this area and in other areas. Of course, all of that will be done as well in public, making sure that the British public and the British Parliament can see what is being asked, but, ultimately, it is going to come down to a choice for people, whether people vote yes or no in the referendum. I suspect quite a lot of noise along the way, but there will, ultimately, be quite a clear choice, basically.

**Q283 Wes Streeting:** What will the timetable be in terms of setting out clearly what the Government's position is?

*Mr Osborne:* This autumn, you are going to see more and more of the detail, as the negotiations move into this new phase. If you think about it, we had the general election, there was a clear outcome and Parliament has now made it very clear that we are going to have a referendum, though the Bill has not yet completed its passage. Therefore, the first phase of this negotiation has been getting the acknowledgement from all the other 27 member states that there will be a negotiation and a change in Britain's relationship with the rest of the European Union and, indeed, changes to make sure that all non-euro members have better safeguards and the whole EU is more competitive. I think it has been a remarkable success that those 27 other member states have accepted that. That is the first phase of the negotiation. The second phase is into, of course, the detail of what that means and how you achieve that. That is the negotiation that is starting now and will take place over the next coming months.

**Q284 Wes Streeting:** I accept what you say about the timetable. The frustration is that at this stage in the process I do not think it is as grand an achievement as you are setting out, frankly. I think the stars have aligned for the Government in a way that perhaps you would not have seen foreseen when you promised the referendum, which is that you have a eurozone crisis and the aftermath of it, which makes the importance of reform within the eurozone and then dealing with the relationship between eurozone and non-eurozone members absolutely essential. On top of that, we have a refugee crisis, which has now put issues like freedom of movement on the table in a way that would never have been the case before. Yet we still have, across Europe, complaints that people know the Government want to see a renegotiation, but we are not clear about what we are fighting for.

This is an issue, going back to our very first exchange, for people who are pro-membership, whatever our political affiliation. We want to be cheering the Prime Minister and the Chancellor of our country on, but we are not clear about where you stand on this issue; European partners are not clear about where you stand on this issue. There is an understandable cynicism, particularly given the announcement this morning that Stephen Parkinson is leaving the Government to join the "out" campaign, that the internal politics and the dynamics of the Conservative Party are not only making life uncomfortable for you, which I am fine with, but are weakening Britain's negotiating position and you are not clear about it because you have an internal political management problem, which is now hurting our national interest.

I do not think it is unreasonable, at this stage, to be frustrated that the Government have not set out a clear position precisely about what they want to achieve when, arguably, the stars have aligned to allow you to achieve far more than you would have expected when you set out on this process.

*Mr Osborne:* Let us agree on some things. First of all, I agree with you that the debate within the rest of the European Union about the need for change is growing and that helps the UK. I agree with you that not everyone in every political party agrees on these issues. That is true in the Conservative Party. Dare I say it, I suspect your views are not exactly the same as the Leader of the Labour Party's views.

**Wes Streeting:** You would be the last to know if that were the case.

**Mr Osborne:** Indeed. That is, in part, why we are having a referendum, because these things do not fall into classic political buckets that are then decided at general elections. This is a big issue that affects our country going forward and people have strong views for and against within political parties; that is the second point.

Third, the right way to approach a negotiation is to set out the principles of what you are trying to achieve. We have done that in speeches by the Prime Minister, indeed in the Conservative Party manifesto and the like, and then you get into the detail of a negotiation of how you are going to achieve that. My approach to negotiation is: start the conversation rather than turning up with your final list of demands on day one. That is not a sensible approach.

A sensible approach is to have the conversation, particularly because, as you rightly say, these concerns about, for example, eurozone and non-eurozone relationships are shared by prominent members of the eurozone. Do you not think it is sensible to at least have the conversation with them about how they think this could be solved before you come up with your final answer? If we disagree, we will be prepared to fight very hard for our point of view and, if necessary, up the temperature, but that is not the way to start a negotiation with what, after all, are your allies and colleagues in the European Union. That might be where you end up, but it is not where you want to start.

**Q285 Wes Streeting:** I have one very brief follow-up. One of the things that I have picked up, talking to people in the banking industry and other parts of industry in the last few weeks, is the sense that there is a clear steer from No. 10 that the voice of business should not engage actively in the in/out campaign until the renegotiation is complete. On a very practical level, you are a political strategist. The campaign is already underway. Do you not think that the time for people to get stuck into this debate is now rather than waiting for the end of the process when we cannot yet, in my view, quite see the light at the end of the tunnel?

**Mr Osborne:** I certainly do not notice people holding back from getting stuck into this debate; it is happening every day.

**Wes Streeting:** Some people are not, and they are not because of No. 10.

**Mr Osborne:** I know there was a story in the newspapers a while ago that somehow we were telling businesses not to pick sides. Certainly I am not saying that, and I am not aware that anyone else has said that, but what Mark Carney's speech shows today is that there is a strong argument for reform. There will be some people who, come what may, want to be in the European Union and some people who, come what may, want to be out of the European Union. The argument we are making is that we can have a better relationship with the European Union and we can achieve this reform, and the fact that independent-minded people like Mark Carney agree that reform is required strengthens our argument.

**Q286 Wes Streeting:** Can you foresee voting against membership?

**Mr Osborne:** I have dealt with this question many times. I am trying to achieve what I was elected to achieve, which is renegotiation within the European Union. That is what my focus is on at the moment.

**Wes Streeting:** You have managed to avoid the question entirely.

**Mr Osborne:** We do not rule anything out, but generally, in life, it is good to start by trying to deliver what you promised.

**Q287 Mark Garnier:** Chancellor, if I may, can I drag you back to the Bank of England Bill? Can I address the reversal of the reverse burden of proof? As you are well aware, the Banking Commission recommended the reverse burden of proof in order to try to drive a number of outcomes, one of which is good or better behaviour, and this certainly attracted a lot of headlines at the time. This Bill reverses the reverse burden of proof back to a duty of responsibility. Can I ask you why you decided to do that?

**Mr Osborne:** I would say the principal thing the Bill does is extend the new Senior Managers Regime to many, many financial firms that are not just banks, but whose failure would cause hardship to customers and, possibly, systemic risks more broadly in the economy. This is a big extension of a very important new check we have on misbehaviour in the financial system and, in the process of extending it to very many more firms, it was worth looking at whether what we had put in place for banks would work more broadly.

There have already been lots of concerns raised, obviously by the banking industry, which you might expect, but by lots of other people, including some of the regulators, about the reverse burden of proof. It was very clear from everyone I heard from that you could not extend that reverse burden of proof to all the other financial firms and the like. If we want to have a coherent, simple regime that is easily understood, we have to make changes, and we have made those changes in this Bill as part of, as I say, a big extension.

**Q288 Mark Garnier:** You are probably aware that Mark Carney and Andrew Bailey came before us and I asked questions about this at the same time, and they gave very satisfactory answers and ones that I agree with broadly. But I am quite interested in the dynamics of how this found itself in the Bill. Was it as a result of you having conversations with the regulators and the Governor; was it largely as a result of lobbying by the banks, which has the flavour of getting stronger; or was it something that you decided within the Treasury? How did the dynamics work to get to this point?

**Mr Osborne:** It was pretty evident just from reading the newspapers—you did not have to go and have any conversations with banks or anyone else about it—that there was a lot of concern about how this reverse burden of proof might be implemented and there was a widespread view that it could not be extended beyond banks anyway. We would have to bring in, essentially, a two-tier regime and that would, in my view, create a bit of a dog's breakfast. The Bank of England Bill, although principally about the Bank of England, obviously—the clue is in the title—did provide a legislative opportunity. We are not planning some big, other piece of financial services legislation. Here is the vehicle to have it debated and discussed in Parliament and, hopefully, have it agreed by Parliament.

The conversations I have with the banks are matched by conversations I have with consumer groups. I am open to discussions with anyone and, of course, I have an ongoing dialogue, as you might expect, with the regulators, particularly the Governor of the Bank. This had come up principally in the discussions I was having with the regulators.

**Q289 Mark Garnier:** This takes me rather neatly on to my next question, which is to do with lobbying in general. Again, the general sense is that it seems to be the banks are getting a little more, dare I say it, uppity in terms of trying to put their case forward. Really, the question is: are you specifically noticing an increase in lobbying from the banks? Secondly, and probably the more important question, is: how do you distinguish between what is special pleading of an interest group and what are very genuine, legitimate concerns of an organisation or industry?

**Mr Osborne:** It is part of this job and, indeed, part of the job of being a Member of Parliament that you listen to people's views, but ultimately we are elected to make our own judgments and Governments are elected to make a judgment. Of course, I will listen to a concern from a bank, just like I will listen to a concern from a consumer group. I will listen to a concern from a big bank, just like I will listen to a concern from a small building society. Mr Tyrie was just asking me about the concerns of challenger banks; of course, we meet with challenger banks to hear their concerns. I would be failing in my job and my team in the Treasury would be failing in their jobs if they did not listen to people.

There is a big difference between listening to people and automatically doing what they ask you to do. It is quite the opposite. You listen, collect as much information as you can and then come to your own judgment. Then you are held to account in Committees like this and, indeed, on the Floor of the House of Commons for that judgment.

These banks are very important companies in our economy. They employ, in some cases, tens of thousands of people. They provide the credit for businesses large and small, so of course we want a healthy banking system. We want a competitive banking system and that is what this morning's report has been about, but I have not shied away from taking some very difficult decisions in terms of tightening regulation over the banking system: ring-fencing banks with our regulators, requiring more capital from banks, agreeing to European directives that require more capital from banks, introducing this new Senior Managers Regime, deferring bonus payments from banks.

These have all been implemented over the last five years and there have been, unsurprisingly, quite a lot of people in banks complaining about those things, but we have proceeded with them because they are the right thing to do. There are lots, I suspect, of people in banks who do not particularly like this Senior Managers Regime, but it is the right thing to do to get that balance between the interests of the industry, as some would perceive them, and I would say the broader interests of the industry and society, which is to have a well-regulated banking system with some tough protection against misbehaviour.

**Q290 Mark Garnier:** I just have one more question, on the independence of the regulator. Some of your critics would point at Martin Wheatley's departure as an indication that any future Chief Executive of the Financial Conduct Authority, while trying to go off and be independent, may well be casting an eye over their shoulder to see what is happening in Whitehall and if anybody is looking over their shoulder. How would you respond to those critics?

**Mr Osborne:** Martin Wheatley did an excellent job in creating the FCA. That was a difficult task he had, because we were creating a new and powerful consumer regulator, but we took the view that he was not the right person to carry on with the next phase of the

FCA's development. I would say that, if you have public appointments where there needs to be a reappointment, it should not be assumed that they are automatic; otherwise why would you have a reappointment? No one should have certainty that they are going to be reappointed to a job. We all know that as Members of Parliament.

His term was coming up for renewal next spring, in March 2016, and we took the view that he had made his contribution to the FCA and now we needed someone else to take it forward. We are now in a very good process of making that appointment. We have had a lot of really very strong applications for the job. You will have to judge me on the decision we take and you will take a close interest in that, but, on the basis of the applications we have had for the job, it justifies the decision to look further afield for a candidate.

**Q291 Mark Garnier:** When you came to that decision, did you have a conversation with the board or any members of the board of the FCA in order to ensure that your decision was the right one?

*Mr Osborne:* I do not really want to get into private conversations. Suffice to say this: obviously I am in conversation, as indeed are people like Charles, with the Chairman of the FCA. I do not directly interact with the board. I tend to interact with the Chair and the executive, and we have conversations about lots of things. I do not want to suggest anything, therefore, about the nature of that conversation, but I obviously regard it as part of my job to stay in touch with the heads of the boards of these regulators as well as the regulators themselves.

**Q292 Chair:** The FCA appointment, of course, is absolutely crucial to millions of consumers who are affected by the decisions the FCA takes and, in the case of some years back, failed to take, in the case of the FSA particularly. Millions of people have suffered as a consequence and have paid out, through either the tax system in order to prop up banks or compensation that they have not received or inadequately received over many years. We will be holding a pre-appointment hearing of that appointment when you announce it.

I just want to take you back to one point you made on the reversal of the reverse burden of proof. Why did you not wait for the regime to come into force, to enable an assessment of it how it works to be made, before implementing this further change?

*Mr Osborne:* That would have been much more confusing than the simple approach we have now. To introduce a regime and then get rid of it and introduce another regime is not as straightforward as—

**Q293 Chair:** I am saying, before coming to a decision to get rid of it, why did you not at least wait to find out whether the thing that you put on the statute book only three years ago would work?

*Mr Osborne:* I come back to the purpose of the Bill. The Bill is extending the regime as, indeed, recommended by the Parliamentary Commission and, I think, the Select Committee, to many non-bank financial firms. I could have waited several years before doing that, but I did not think that was sensible. If you are going to bring in this extension of the regime, then you owe it to everyone to try to make that coherent and

straightforward, and that is what I believe this proposal does. Introducing, as I say, a confused regime, and then seeing whether that works and then coming back to it, I do not think is the right approach.

**Chair:** I am not sure that is the only alternative, but anyway.

**Q294 Helen Goodman:** Chancellor, I want to ask you some questions about the accountability of the Bank and transparency. The Bill was published in the middle of October, but, in the middle of July, the Court of the Bank of England discussed the role that the NAO would have and they wrote to the Treasury. What concerns did the Court raise with you about the role of the NAO?

**Mr Osborne:** The Court has been concerned about the independence of the central bank, to put it in the starkest terms. This Bill involves a very significant extension of oversight of our central bank. For the first time, the NAO is going to be looking at the core functions of the Bank. The NAO, of course, peers into lots of different aspects of our public life—the Royal Family, the BBC, as well as Government Departments—but the Bank of England, except in some aspects of the PRA’s work, had always been exempt from the NAO’s work. Now the NAO will be able to go in and do its value-for-money studies, but the Court was concerned that this should not cross over the line and compromise the independence of the central bank. The middle way we have reached in this Bill attempts to strike the right balance.

**Q295 Helen Goodman:** Of course, we all want to see the Bank of England being independent and there is consensus about that. Was there a change in the drafting of the Bill between July and October? That is one for Mr Roxburgh, who might know a bit more on the detail.

**Charles Roxburgh:** Yes, there were extensive discussions between the Permanent Secretary, the Comptroller General and the Governor about the arrangements here to get the right balance, and the final Bill drafting was in line with that. There were discussions along the way as to how to strike that right balance.

**Mr Osborne:** As you can probably guess, the Bank of England was not particularly keen on the NAO doing anything and the NAO would like to do everything and our job was to come up with something in the middle.

**Q296 Helen Goodman:** Obviously, the concern that I have is that the policy carve-out is too broad. Another thing in the Bill is that the Bank of England must share information with the Treasury. I want to give you a specific example of this, where it is not about the Bank’s independence but it is about the Bank’s contribution to policymaking. Before the RBS sale, the Bank Governor wrote to you saying he thought that the sale of shares would be good because it would promote financial stability, a more competitive banking sector and be in the interests of the wider economy. I asked him about this earlier this week and he was absolutely clear that, while he thought it had those advantages, he was not making any recommendation as to the timing of the sale or the price.

I wondered whether, when you were making your decision about pricing, because obviously we have here a potentially significant paper loss, you had asked for the analysis

that underlay his judgment in order that you could make a sensible decision about whether the benefits were worth the £7.5 billion potential paper loss.

**Mr Osborne:** The reason I asked the Governor of the Bank of England was because the Royal Bank of Scotland is one of our largest and most important banks, with many tens of thousands of customers. Of course, given all the trouble it has had over the last decade, it is also one we keep a particular eye on and the regulators have expressed concerns about in the past. I should say, at the moment, the management there are doing an excellent job in getting it into much better shape. Given that the Governor of the Bank and the Bank of England have the responsibility of regulating our banking system, I thought it was right that you had to ask the Bank whether selling shares would, in any way, compromise stability or compromise the repair going on in RBS. He gives us the judgment that it does not; indeed, it is of positive benefit both to the broader financial stability and to support the work going on in RBS.

The judgment on the share price must be and is a judgment for me and the Treasury, obviously then to be held to account for by Parliament, rather than a judgment I should ask the Governor about. I suspect he would also refuse to give me his view even if I asked him, but I did not ask him because I thought that would step over a line. To your specific point, I did not receive some great body of further supplementary evidence. You have in front of you the information and the judgment I received from the Bank of England.

**Q297 Helen Goodman:** You did not make a specific request for the more detailed analysis.

**Mr Osborne:** We are in constant discussion about financial stability risks, if there are particular risks that emerge in particular firms, but I did not ask for a specific set of analysis that might inform the right price to sell RBS at. I did receive that information from Rothschild, the investment bank, which we commissioned to provide us with that independent advice on the right sale price or whether it would be value for money to proceed. Also, as you know, as a former civil servant, I have a Permanent Secretary who can issue a direction if he has concerns about value for money.

**Q298 Helen Goodman:** Of course, that is true. To take the Rothschild document, the fact of the matter is it does not have any numbers in it. You have not made a proper cost-benefit analysis of the decision, as far as one can tell.

**Mr Osborne:** In UKFI, as it then was, that is their job. They make a recommendation to me about whether now is the right time to sell and they make an analysis of market conditions, the share price, what might happen to the share price going forward and so on. They made a recommendation to me that now was a good time to sell at this market price, both in a general sense, so they provide me with advice saying, “In the coming months market conditions look favourable to a sale”, and then they give me very specific advice: “Today is a day when you might want to undertake a sale”. I get all the advice you are asking me about from them. They of course have many conversations with market participants and the like, and they appear before your Committee to be held to account as well.

**Q299 Helen Goodman:** I guess the root of this is the extent to which transparency can enhance or diminish independence. The Bank is independent; the Bank takes independent decisions on monetary policy, but we do have a very open regime on publishing the minutes of the meetings and doing that very quickly now, because I think you have speeded that up. Let me put it this way. You, presumably, do not think that transparency, of itself, deters independence.

**Mr Osborne:** No, I do not. The independence of the Bank is one of the most valuable things we have in terms of our macroeconomic framework and we should jealously guard it. This Bill strengthens again the independence of the Bank, and the memorandum of understanding we have published alongside it about what happens in crises spells out again the clear relationship between the Treasury and the Bank of England. The additional transparency you are getting as a result of this Bill is a good thing, because, precisely because we have given the Bank of England a lot of power, we, as the elected Parliament, have a responsibility to hold it to account for the decisions it takes. Of course, the Bill always provides the opportunity to take that power back, but it would have to be a pretty grave situation before that was even contemplated.

**Q300 Helen Goodman:** So we can agree that transparency improves public policymaking.

**Mr Osborne:** What I would say is that transparency in how decisions are come to helps, particularly where you do not have elected politicians who are held to account on a daily basis before Committees, in Parliament and so on. If you take the Monetary Policy Committee as a good example, they will publish their minutes, but they do not publish all the analysis that goes into informing the Committee. They strike the right balance, I think, in the case of the MPC.

**Q301 Helen Goodman:** Chancellor, the Chairman of this Select Committee wrote to you asking for some more transparency on the distribution analysis on tax credits, specifically seeking the distribution by decile of this year's decisions—not the decisions over a period of years, but the decisions you took in the summer. We still have not had the response to that letter. It is an analysis that you were previously publishing. You have given us an analysis by quintiles; you have given us an analysis over a period of years, but you have not given us what the Chairman of this Select Committee asked you for. Could you do that now, please?

**Mr Osborne:** There is a very good example of where there was no information provided at all before I became the Chancellor of the Exchequer. None of these distributions were provided at all, despite former Labour Chancellors being repeatedly asked for such information. We publish, therefore, vastly more information than has ever been published before.

Since I appeared before this Committee at the time of the summer budget and was quizzed by you about changes made in that summer budget, including to tax credits, I have sent Mr Tyrie and the Committee a detailed breakdown and the chart on how different quintiles of the population have made a contribution to the consolidation. That is the old analysis we used to provide, and I was asked to provide it again and I have. Indeed, I have provided to the House of Lords additional information on how the changes in tax credits fall within the tax credit population.

I have provided a huge amount of information, but it comes down to a very simple judgment, which is: do you think our welfare system is too expensive? Do you think we should move to a higher wage, lower welfare economy? Ultimately, that is the decision we are all being asked to take as Members of Parliament. We can keep the debate going about, “Can I have this bit of information or that bit of information”, but we all know this is fundamentally a judgment call, and I am comfortable with the judgment call that I have made and that the House of Commons supported this week.

**Q302 Helen Goodman:** Well, Chancellor, you made great progress, as you have pointed out, in the level of openness with respect to your analysis in this area in the last Parliament. What this Committee would like is to see that maintained in this Parliament. That is why I am going to ask you again: please will you give us this information?

**Mr Osborne:** As I said in my most recent letter to Mr Tyrie, we have provided quintile breakdowns of the cumulative effects of the distribution of public resources. Mr Tyrie has asked for those as deciles and we are working on providing that. It is not a straightforward exercise, but we hope to be able to provide Mr Tyrie and the Committee with that.

**Q303 Chair:** We are very grateful to you for the flexibility you showed five years ago, in 2010, and all we are really asking is that you stick with that flexibility in providing that information and providing the type of analysis that you have provided over the previous five years, given the fact that you have agreed in evidence, in response to questions from me, that continuity of the analysis had great value in itself and enabled a much better appreciation to be made of what is really going on in the distributional analysis. Indeed, that goes right to the heart of the judgment you say we have to exercise in light of the publication of these figures. I would be very grateful if you would consider it again. You have heard the views of, now, not only a member of the Committee but also me, acting as its Chair, which is now in the public domain and we would like you to respond to it in due course.

**Mr Osborne:** Absolutely. As I say, a lot of work has gone into that model over the last couple of years. It now apportions public expenditure decisions to different families. We produce that information now on a quintile basis. We aim to produce it on a decile basis, as requested by the Committee. In your most recent letter, you asked for the methodological underpinning behind that public expenditure analysis. We have published the underlying methodology.

The question is this: the House of Commons has passed this measure twice. It now sits in the House of Lords and the question for the House of Lords is if it is going to respect the 1911 settlement that says the House of Lords does not second guess the House of Commons on financial matters. That is a decision for the House of Lords.

**Chair:** We are not asking for the House of Lords to rouse themselves on this. We can look after ourselves. We would like the analysis, please, Chancellor.

**Q304 Stephen Hammond:** Chancellor, can I drag you back to the Bank of England Bill? You mentioned the Senior Managers Regime a moment ago. Could you explain some of the factors in why you decided to extend that to everybody authorised under the Financial Services and Markets Act?

*Mr Osborne:* Well, because every participant in the financial services industry, every company or organisation, has responsibilities towards its consumers and, in some cases, there will be systemic consequences of the decisions they take. The Approved Persons Regime that existed before does take that into account and, therefore, it was sensible to make sure that the Senior Managers Regime had a broad coverage. However, as Andrew Bailey made clear when he came before this Committee, how it is applied is going to be a matter of judgment and obviously a big, universal, systemic bank is going to have much greater attention than a very small firm of investment advisers.

**Q305 Stephen Hammond:** That is the crux of the concern. There are two concerns for me. Andrew Bailey, in his evidence, used the word it was “simpler” to have this regime in place. The two concerns are the one you have articulated there about proportionality and how that will work and, secondly, it is not always true that one regime fits all sizes within financial services.

*Mr Osborne:* That is right, in the sense that you would expect things to be applied proportionally, but I thought Andrew Bailey made it very clear that that was exactly how he was intending to apply it. Put it this way. If we did not extend the regime, you would have a rather odd situation where a small building society could have this Senior Managers Regime and a large investment firm did not, and yet the consequences of the failure of the large investment firm would probably be greater for the economy than the failure of the small building society. You want to have as broad a coverage as possible and then ensure your regulators are applying a judgment about how intensive that scrutiny should be.

**Q306 Stephen Hammond:** So we, as a Committee, should look at how Mr Bailey operates proportionality as a test of the success of the regime.

*Mr Osborne:* A test of the overall success of our changes to the way we regulate financial services should be whether our regulators are exercising judgment. If we rewind, the Royal Bank of Scotland was allowed to take over ABN AMRO when the credit crunch had already started. That was a massive failure of regulation in this country, not because any rule was broken; indeed, there was extensive box-ticking of the takeover. It was just no one sat there and said, “Hold on, is it entirely sensible for the Royal Bank of Scotland to take over this massive bank in the middle of a distressed market?”

Everything we have done, from putting the Bank of England in charge and making the Governor ultimately responsible, to the decisions in this Bill on senior managers, stems from that determination to put judgment back in our regulation.

**Q307 Stephen Hammond:** I am going to come on to judgment again in a moment with regard to the FCA, but, just continuing on this particular point about the Senior Managers Regime, Andrew Bailey, in his evidence on the reversal of the reversed burden of proof, said that it was his judgment that what has happened in terms of now putting in place a duty of responsibility makes little difference to the substance of the new regime. Is that your judgment as well?

*Mr Osborne:* I think he meant that in a positive sense; i.e. it is going to be as tough and effective as ever. Indeed, I think he would point to the fact that he felt the reverse burden

of proof would lead to more box-ticking than this proposal we have before us today. It is an improvement, if you were looking for more judgment-based regulation.

**Q308 Stephen Hammond:** That is a view you share as well.

*Mr Osborne:* Yes.

**Q309 Stephen Hammond:** Coming back on the point about judgment, can we just cover the FCA? Mr Tyrie, a moment ago, said to you that one of their functions is the protection of the consumer, but they have two functions, do they not? One is also the regulation of the wholesale markets. One of the clear lessons from the last few years is that the operation by that committee of their judgment in wholesale markets has not been as sure as one would have liked. Is that a view you would share?

*Mr Osborne:* No. I think the FCA has done a good job, but there is clearly room for the FCA to develop into its role and, hopefully, under new leadership, it will do that. I should also, by the way, commend the job that the Acting Chief Executive is doing at the moment. Tracey McDermott is doing a good job and I want to thank her publicly for what she is doing.

**Q310 Stephen Hammond:** To continue on that point, one of the considerations of the appointment of the new person will be a recognition that there are two roles. Although they will be interrelated, they are two quite separate functions, and it is quite clear that, although the vast bulk of what is regulated is the 50,000 retail, if one does not get the regulation and share the trust of the 20,000 you are regulating in the wholesale space, there will be a real problem.

*Mr Osborne:* Ultimately, you could create, as other countries have, a multiple of regulators. You could have a separate markets regulator, but I think that would lead to a different challenge, which is that you would have all sorts of different regulators not necessarily talking to each other and problems that we saw in our country with a tripartite regime, but actually problems that they have in the US. Bringing it together in a single organisation, consumer protection and market regulation, has been sensible. I think the market regulation in the UK is excellent and world-beating, and we want to make sure it stays that way.

**Q311 Chris Philp:** Thank you, Chancellor, for joining us this morning, particularly bearing in mind I know you are coming again quite soon after the autumn statement.

*Mr Osborne:* I am already looking forward to it.

**Q312 Chris Philp:** So are we. I can sense your enthusiasm. I will be restricting, therefore, my questions to matters concerning the Bank of England and regulation, rather than straying into other territory. I would like to start by asking your views on a comment Mark Carney made two or three weeks ago. He said that he thought the growth in the buy-to-let mortgage sector, which we have corresponded on recently, posed one of the three biggest systematic risks to our economy. I wondered if you shared the Governor's view on that.

**Mr Osborne:** I take the Governor's view very seriously. It is true that, if you look historically at the UK, one of our biggest challenges has been managing credit booms and house price cycles. That is why we created the Financial Policy Committee, in part, to try to manage some of those risks. Again, one of the problems with the system I inherited was that no one was looking out for overall debt levels in society and no one was looking at particular problems in particular sectors, like housing. We have given the FPC powerful tools to, for example, tighten mortgage standards if they feel that there is a credit bubble developing. The Governor of the Bank and the FPC have asked for additional powers over buy-to-let mortgages, which were not included, and we are in the process of granting those powers so that they have that tool as well.

**Q313 Chris Philp:** Is that a new decision since we last met? I understood you were consulting this autumn on potentially giving them powers of direction over, for example, the PRA, but that had not yet been decided.

**Mr Osborne:** It is a consultation. It is how they have the powers. I think we have made it pretty clear they have asked for them. I should also say that, when I announced the tax measure that I took in the summer budget around mortgage interest relief, I explicitly referenced the Bank of England's concerns about the buy-to-let mortgage as well, so there are a number of tools you can deploy in this space.

**Q314 Chris Philp:** When would you envisage these new powers being effective after the consultation?

**Mr Osborne:** I had better wait until we make the announcement, but as soon as possible. There is scope for the Treasury Committee, of course. We had this discussion some years ago, Mr Tyrie, about the very important powers that we grant to the FPC. One of the checks in our system is that we scrutinise those, and that is up to the Committee.

**Q315 Chris Philp:** I certainly very strongly welcome the move you are describing. I know the Governor does as well, particularly as buy-to-let mortgage approvals were the same in the first six months of this year as the entirety of last year. I have some other thoughts on how we can promote the owner-occupier market, but this is probably not the right forum in which to communicate those and I will save that for another time.

When the Deputy Governor, Andrew Bailey, came to us, I asked him whether he had been doing work on how many large banks in the UK were capable of resolution, so capable of an orderly windup in the event of an adverse event. He gave the answer, slightly alarmingly, that as of today the answer was zero. Is that a fact he has communicated to the Treasury and are you satisfied that the Bank is doing enough to make sure that our large banks are capable of orderly windup should any adverse circumstance occur in the future?

**Mr Osborne:** This is obviously one of the biggest challenges we face in Britain and other countries. How do we avoid too big to fail? How do we avoid a repeat of what we saw in 2008? The way I think about it is, if a Chancellor faces the same crisis that Alistair Darling faced, does that person have more options than he had? He essentially had pretty limited options that night, for all sorts of reasons: the law did not give him the discretion he needed or the regulators needed to pursue other options; there was no

obviously bail-in-able debt; the capital that had been built up by the bank had been wiped out very quickly and so on; and it was poorly regulated.

That is how I think about it, and I think we are in a better position. First of all, we are less likely to get to that point, because we require more capital of our biggest banks and we have a tougher regulatory system. We have discussed the Senior Managers Regime to hold people to account and Andrew Bailey was interesting on that fact, saying he thought that would really have helped avoid the crisis.

Second, if you do get into a crisis, you have advantages that Alistair Darling did not have: you have bail-in-able debt, because of the TLAC—total loss-absorbing capacity—discussions currently about to be concluded in the FSB, so you can bail in creditors before the taxpayer is turned to; you also have pre-agreed resolution plans, so you are not looking at this bank for the first time at one in the morning on a Saturday night; and you have very clear legal powers for your central bank to act as the resolution authority. There is a lot more weaponry available to the state to avoid the taxpayer having to step in.

Is the journey complete? No, it is not. Ring-fencing is currently taking place and will be in place by 2019, so again a Chancellor can say, “I can take out the cash machines and the small business accounts and protect them on Monday morning when the bank opens”. Are we there yet? No. Are we getting there? Yes, I think we are.

**Q316 Chris Philp:** In fairness, Deputy Governor Andrew Bailey did make exactly that point. He said that the situation today, although not complete, was dramatically better than was the case going into 2008, so he did echo everything that you have just said. On the question of increased capital, you are quite right to say, of course, that the tier-1 capital held by banks is dramatically higher now than it was seven or eight years ago. I think it has gone up now to about 12% on average. Are you concerned, Chancellor, that we may perhaps even have driven that a little too high in terms of constraining the ability of banks to use their balance sheet to, for example, engage in SME lending, which is perhaps a little weaker than we may have hoped? Do you think we should maybe pause the process of increasing tier 1 capital just to encourage lending a little bit, particularly to the SME sector?

**Mr Osborne:** This is absolutely a decision for the regulators, not for the Chancellor, precisely so we do not succumb to the temptation of believing that, if you let them off some of their capital requirements, you might help some lending in the economy. That is precisely the route that politicians might be tempted to go down. That is why we give these decisions to an independent bank and independent regulators.

I do not think, ultimately, there is a trade-off. Well capitalised banks are one of the best things you can provide for a small business, because, I can tell you, if the bank is not well capitalised, the first people who are going to go to the wall are going to be the small businesses as the bank fails, so I do not see there is a trade-off. All the international agreements, the European directive, the work of the FSB and our own work here domestically have put our banks in a much stronger position than they were and, by the way, as a country, we run, which we did not before the crash, regular, very tough stress tests precisely to check that they can cope with whatever the world throws at them.

**Q317 Chris Philp:** Your sentiments are entirely in line with Governor Carney's. I asked him the same question back in July and he gave pretty much exactly the same answer, so you are clearly on the same page.

**Chair:** What a surprise.

**Mr Osborne:** There was a time, Mr Tyrie, when it was not unheard of for Chancellors of the Exchequer to give very different views on things to Governors of the Bank, and I think that pointed to a dysfunction in the system rather than healthy debate. It is a very important part of this job to make sure we have a strong, confidential relationship with the Governor of the Central Bank and we work, both of us, Mark and I, very hard at that and I think it is a good relationship.

**Q318 Chris Philp:** Yes, that is very clear. The Chairman asked at the beginning about the CMA report, which, I have to confess, I have not had a chance to fully digest in the few hours since it has been published. One issue that constituents and other backbench colleagues have raised fairly frequently is the issue of high street banks engaging in programmes of branch closures, for understandable reasons, based on the economics of that and the cost-effectiveness of having branches. But there is, you might argue, a social function to having at least one high street branch in each community, particularly for old people. I wonder if you have any particular view on that area of the CMA's activity.

**Mr Osborne:** There is a particular concern about the "last bank in the community" issue and that is why we do take an interest in that. The CMA report today is excellent. It promotes switching of accounts, which is the most competitive way to deliver a better service for customers. Actually, quite a lot of these challenger banks have decided that a presence on the high street is of positive benefit to them. It makes them a better place to bank, and certainly all the evidence of the switching at the moment is that people have been tending to leave some of the older, larger banks and going to the newer banks. Broadly speaking, I am not going to say where they should bank, but I want those customers to have maximum choice and be reminded of those choices all the time.

**Q319 Chris Philp:** The FCA Acting Chief Executive came to see us yesterday. A point I raised with her was regulation of the emerging peer-to-peer lending sector. I am slightly concerned that, because individuals, typically not high-net-worth individuals but ordinary individuals, are depositing money with these peer-to-peer lending platforms and getting a rate of, say, 7%, I am not entirely sure that these members of the public fully understand that, when they are getting this 7% return from one of these platforms, it is not the same as putting it into a bank or an investment fund. They are effectively making a bilateral loan to whichever SME or other individual they are being connected with. I am just concerned this might be a future regulatory time bomb if it is not done properly. Again, is this an area that you have looked at with the FCA and are you happy that they are taking a strong enough hand in this area?

**Mr Osborne:** The short answer is, yes, we have looked at it at some length and, yes, I am happy with the approach the FCA is taking. You have to get the balance right. This is a potentially very important new source of credit in our economy. It enables small investors to get involved and get a good return, but obviously, as you say, it is a more risky activity than just putting that money on deposit. I do not want to kill off this industry before it has

started, but of course people should be made aware of the risks they run when they make these investments.

**Q320 John Mann:** In the spirit of Mr Streeting, we are all comrades together today.

**Mr Osborne:** We have, it turns out, similar views about similar things.

**John Mann:** We may come on to that in a minute in the context of this Bill. I want a copy of this historic painting to come of you and Mr Streeting carrying the flag of Europe triumphantly down Whitehall, with Mr Kerevan in support, following the referendum. I also picked up on Ms Goodman's comments. I repeat her point. We are trying to help you, Chancellor, avoid Mrs Thatcher's mistakes with the poll tax. We, also with *Question Time* on television last week, have had constituents coming and saying, "We are the people who work hardest in this country. We earn the least and the Government is going to take away the money we need to survive". Obviously that would be a political disaster for you as well as for the country.

The information that we are seeking is as much in your interests as in ours, so that we can get this right. We do hope that we get the maximum information on the impact on individuals, so that we can be clear on who is impacted and who is not, which then will allow your own colleagues, but also us, to vote accordingly in the future.

**Mr Osborne:** As I say, we have provided a huge amount of information about these changes, more so than any other Government, more so certainly than any Labour Chancellor. People know what we have proposed and, of course, in the general election we made it very clear we needed to make £12 billion of savings from welfare, so it was also signalled and, I seem to remember, heavily debated in the general election campaign.

Ultimately, it is a matter of judgment. Are we a country that is going to live within our means? That economic security is central for the working people of this country. For families, it is really important that they live in a country that does not expose itself to whatever the world throws at it, does not go bust, does not live way beyond its means, because I can tell you the people who are affected, as we know from experience in this country, are the lowest paid in our country. They are the people who lose their jobs. They are the people who suffer when the economy fails, when the country cannot live within its means, when the welfare bill gets out of control. I feel very strongly about that.

**Q321 John Mann:** On the question of judgment, obviously Mr Wheatley was not reappointed. Will you be making the decision on his successor or will you be seeking to influence the decision on who his successor is?

**Mr Osborne:** It is ultimately a decision that falls to me and I am held to account for it.

**Q322 John Mann:** That is very clear. While we agree on city regions, the northern powerhouse under Randolph Churchill was—

**Chair:** This is a long way from the Bank of England Act, but maybe we will get back to it very soon.

**John Mann:** The Chair does not seem very happy with me asking questions on the Bank of England Bill and its relevance to the northern powerhouse, but I will. In the context of what was done in the 1880s and elsewhere in terms of the northern powerhouse of the time, one of the key factors that emerged that was really strong for the country and really strong for the north was the creation of building societies. In your own county of Cheshire, in Nottingham, in Mansfield, across the north the creation and strengthening of building societies was fundamental to the industrial development of the country.

Within what you are doing, within the city regions and within this Bill, there is nothing there in terms of shifting finance and the creation of finance. Is that something that can be considered—perhaps not immediately within this Bill; that may be too short a timescale—in terms of structural changes that rebuild those financial institutions in the north and their share of the market?

**Mr Osborne:** I did not think I would say this, but that is an excellent suggestion. It is not provided for in this legislation. I have been trying to get the foundations in place for stronger civic power in the north of England, better transport connections to attract a more vibrant private sector economy, but the provision of more local finance, as you say, something that was a feature of our economy in the past, sadly much diminished, particularly as a consequence of the financial crash when a lot of building societies were merged and so on, is something we should look at.

There may be opportunities through things like credit unions, peer-to-peer lending and funding circles like that, to find new ways of doing it, as well as through traditional building societies. You and I have spoken about your constituency and how it can be tied in more closely to Sheffield City Region and reflect the real economic geography rather than the administrative boundaries on the map of the people you represent. I am very happy to take on board any suggestions you have about how we strengthen local finance for your constituents and, indeed, other constituents north of here.

**Q323 John Mann:** One of the structural problems in Government, which is a problem you have but not of your making, is that, for that kind of concept to develop, which to some of us would seem fairly fundamental to the medium-term restructuring of banking and financial stability as well as access to finance, if we look at the way your northern powerhouse is developing, there is a potential conflict between Communities and Local Government and the local government power bases, but also the local government structures: councillors voting to maintain councils because they are councillors; vetoes for councillors.

It was not Treasury Ministers who were leading on the Bill yesterday, and that seems, to me, a structural problem. Are you confident that the vested interests, DCLG-wise and in local government, in terms of structures are not going to over-dominate the potential for innovation, be it inspired by yourself or be it local Labour politicians who may be running such local powerhouses?

**Mr Osborne:** This has been progressed and could only have been progressed on a cross-party basis. I would not have been able to undertake these changes without the support of local Labour civic leaders in Manchester and now in South Yorkshire, and, I hope, in other parts of the country soon as well. One of the challenges has been working within the existing local government boundaries and existing combined authorities and so on, and your area, as you well know, has this particular challenge. Your constituency and

your local council are in a different county from the South Yorkshire combined authority. As a result, although you would like your area to be a participant in that new Sheffield City structure and we have tried to make sure you are a participant with an agreement between the new to be Mayor of South Yorkshire and Bassetlaw, we have not been able to move Bassetlaw into the combined authority because of local government boundaries.

All I would say is our route through that is not to try to impose anything on anyone; I think that is where local government reorganisations go badly wrong. Instead, it is to say, if you, your local council and your local communities can come up with changes that you would like to see to local government boundaries, we can work together to make them happen. But, as I say, that is not something I can impose from the centre. It is something we can work on developing. There has been a lot of innovation in the last 12 months in making this work for Greater Manchester and making it work for South Yorkshire, and I do not see why we cannot make it work for those adjacent districts that are part of the economic geography of the area, even if they are not part of the county.

**Q324 John Mann:** Your comments are appreciated. The issue I am driving at as well, though, is: in the context of competition and the remit of this Bill, definitions of how competition is created can vary and one of the potentials would be for a large city region to be coming forward with its own proposals. I am interested: we can see how this Committee can interact and attempt to hold you and others to account in terms of the competition remits that exist and, in our view, rightly exist. What is the role for these big, new municipalities that also have a direct interest, but also potentially a direct contribution in defining what competition should be?

**Mr Osborne:** The answer is we are, in a positive way, in uncharted territory. We are creating these new, powerful mayors for big cities outside of London, and I want to make sure that we think through how they can interact with Parliament, how they can have a say on financial decision-making. We are already looking at things like trying to bring local authority pension funds together in more regional groupings, how the British Business Bank can have more regional investment funds and so on. If you have proposals about how we can encourage more regional finance, more regional banking, strengthen credit unions, strengthen building societies, strengthen new forms of financial technology finance, we absolutely will look at those things. I feel this is the beginning of the journey of devolving power in England, not the end of the journey.

**Q325 John Mann:** My concluding point, in the context not of an amendment to the Bill specifically, but as something that needs to be built in without requiring legislation, is that those larger authorities should have direct interaction with the Bank and with its competition mandate in terms of both pragmatically and practically, but also in terms of part of the accountability structure.

**Mr Osborne:** The Bank of England is stronger when it has a proper understanding of and a dialogue with different parts of the country. They have a regional agents' network already, so they recognise that, but I am very happy to take this conversation back to Mark Carney and say, "We had this conversation. What is the role that the Bank of England can play in helping to build the northern powerhouse?"

**Chair:** There you are: five years in and it is the Bassetlaw-Tatton coalition developing across the north. It is very interesting to watch.

**Q326 Mr Rees-Mogg:** Before I go to my questions, can I remind the Committee of my declaration of interest? I am probably covered by the Senior Managers Regime as the Chairman of Somerset Capital Management and certainly my business will be. I probably should have mentioned this on Tuesday, but it was not clear to me at that point that I would be.

Now to the questions, which are back to the Bill, starting with the Prudential Regulation Committee. Chancellor and First Secretary, how should this Committee and others measure the success of the PRC?

**Mr Osborne:** Its job is to provide a safe and sound banking system and to ensure the safety and soundness of banks. It is not a zero-failure regime. Indeed, the discussion we were having earlier about too big to fail goes to the heart of that, but, if banks are to fail, they need to do so in a way that is not to the detriment of their customers and not to the detriment of stability of the economy. Obviously, achieving that is a big challenge.

**Q327 Mr Rees-Mogg:** How will the Committee know that it has been meeting this promotion of safety and soundness? How will we get to know if banks have been teetering on the edge and it has saved them, if that could create, in itself, market turbulence?

**Mr Osborne:** The stress tests are precisely designed to tease that out or reveal that. The banks have already undergone tough stress tests last year and they are undergoing a new round this year. That should reveal whether they are sound, have strong capital requirements and then, of course, individual institutions have intensive regulation if they are large and systemic. It comes down to judgment. I would say trying to prescribe in advance exactly how the PRC does its job would be a bit like trying to prescribe in advance how the Monetary Policy Committee does its job and I do not think that would be right. It would not work.

**Q328 Mr Rees-Mogg:** How do you think the PRC will differ from the PRA board in the way that it carried out its responsibilities?

**Mr Osborne:** It will be more of a policy committee. That does not mean it will be an exclusively policy committee, because it also has responsibilities for signing off the budget and so on, and I think it will be more integrated into the Bank. The essential decision we took five years ago was to bring banking supervision under the auspices of the central bank. The initial way we did that was to create a subsidiary, the PRA, but I would say this has been a real success and we can, therefore, go further in the integration of the PRA into the structure of the Bank while, at the same time, respecting it has certain functions it needs to carry out independently and it has a chief executive defined in this legislation with statutory responsibilities.

**Q329 Mr Rees-Mogg:** This Committee will, to some extent, be the body that oversees how well it all works. The Bill makes no provision for minutes to be published by the PRC. Do you think this is an omission, even if a record or a minute were published with some delay?

**Mr Osborne:** I heard that this was a line of questioning earlier this week or I read the transcript, and I think Andrew Bailey said he would happily consider providing more information. It is a tricky one, because of course the discussions will probably, in many cases, centre on individual firms. There is therefore a huge commercial sensitivity to that and you have to respect the interests of shareholders and the like. At the same time, you do not want to restrict conversation. Trying to get that trade-off between a full, frank and free discussion, which you would want this committee to have, and then being required to publish in detail what it discussed a few weeks later is probably not compatible. I do not think there is a simple solution to that, and so it is essentially a matter of judgment and I think the MPC broadly gets it right.

**Q330 Mr Rees-Mogg:** Clearly it is a difficult issue, because this Committee cannot carry out its role of supervision and holding the PRC accountable unless it knows what the PRC has been saying, but the minutes of the PRC meetings could in themselves create a financial panic if they revealed that a major bank were in significant trouble. I do see the difficulty, but there does need to be some form of understanding, I suppose, between this Committee and the PRC if we are to be able to do our job as the body to whom the PRC is accountable.

**Mr Osborne:** This point has been well made today and was well made earlier this week. As Andrew Bailey himself said, we should take it away and consider whether there is more that can be published about the work of the PRC.

**Q331 Mr Rees-Mogg:** My final question is: certain people within the Bank are now remarkably loquacious, giving us their views on all sorts of political subjects, and the MPC and FPC have been doing that for some time. Do you think the PRC will join in this babble or whether they may be more discreet and silent and, therefore, maintain the dignity of the Bank?

**Mr Osborne:** They should only speak when they have something to say.

**Q332 Chair:** Individual independent directors should only speak when they have something to say. Is that correct, Chancellor?

**Mr Osborne:** It is not really for me to tell them what to do. Hopefully, we will have people sitting on this Committee who are robustly independent and have views about life. If you look at what Mark Carney has done and Mervin King before him, you want to make sure that there is also some collegiality.

**Q333 Chair:** The challenge for us, Chancellor, is making sure that independence does not morph into consensus, does not morph into groupthink.

**Mr Osborne:** Nor incoherence.

**Chair:** Well, people said that is what we have with the MPC. In fact, we have a very coherent monetary policy.

**Mr Osborne:** Yes, but there is a voting system in the MPC.

**Chair:** I will not prolong the discussion, but it is in that area that we need to look very carefully at the way the FPC and the PRC will operate.

**Q334 George Kerevan:** By the by, I am sorry that Mr Mann has gone, because I was going to remind him and the Chancellor, who faced Mr Mann's questions, that the Bank of Canada, with which the Governor is very familiar, has always had on its board a wide area of representation from all the Canadian provinces, not by statute but just by consensus. That might be something to take into discussions with the Governor.

One of the novelties in the Bill is that you will be writing a remit for the PRC, as there is a remit in parallel for the other two committees that exist. Why does the PRC/PRA need a remit? It has been operational for several years very successfully, by all accounts; it is governed by rules set down under the Basel conventions. Why do you need to write a remit for it?

**Mr Osborne:** It is perfectly reasonable for the Government of the day—and of course this is done transparently—to indicate what their broad approach is to financial services and the like, and ask your independent central bank and regulators to look at that remit and to take it into account. But we are very clear that they are not bound by it, so I think that strikes the right balance.

**Q335 George Kerevan:** You appoint the Governor; you appoint the independent members of the PRC. You are a key person, so, if you were to produce a letter saying, "We want lighter touch regulation", you would not expect them to take that into account and you would not, say, for instance, remove some of the key personnel. We know that you did that with the FCA.

**Mr Osborne:** I did not remove anyone. It was a reappointment. Again, I come back to the point, which is: either appoint people for life or for single, long periods, but if you have reappointments then you are entitled to look at a wider field of candidates.

**Q336 George Kerevan:** I understand that and I absolutely agree with you, but the issue is you are now bringing the innovation of a letter of remit to a regulatory body and you are saying that they do not really have to take it into account. I am just questioning you on it.

**Mr Osborne:** My view is that it is something they take into account but they do not have to abide by, and I think that is trying to get the right balance. They have very clear objectives: the safety and soundness of our banking system or financial system, and they are very clear about their statutory objectives. Equally, of course, there are a whole range of things that the Government does that affect the financial system; we were just talking about taxation, for example, earlier in this meeting, so it is perfectly reasonable for the Government of the day to say, "These are some things you might want to take into account". As I say, precisely because you have an independent Bank and you have, hopefully, robustly independent non-Bank members of the Committee, they can come to their own judgment.

**Q337 George Kerevan:** Let us take it from the other end. The Bill also introduces a provision for the new PRC to write at least once a year, which suggests it could be more than once a year, a letter to yourself or whoever is Chancellor referring to "the extent to which the

exercise of the Bank's functions as the Prudential Regulation Authority is independent of the exercise of its other functions". Why have you had to put in statute a provision for the PRA at least once every year to tell you it is independent, if it is independent?

*Mr Osborne:* One of the concerns that people have expressed and, indeed, one of the requirements of European law is that regulation and resolution are distinct and separate. The letter, to me, is partly a device to make sure that they are also accounting to Parliament and to the public for those responsibilities. It is in the spirit of more information, which the Committee is very keen on.

**Q338 George Kerevan:** Will you publish a response?

*Mr Osborne:* I certainly assume that this will be a public exchange. Where I would reserve the right is if there were particular concerns about a particular firm and, indeed, in those circumstances, particularly when the concerns are elevated to very serious ones where there is a risk of public funds and the like, there is an arrangement of informing the Chair of the Select Committee and the Chair of the PAC.

**Q339 George Kerevan:** It is not clear within the Bill provisions as they are at the moment whom you would expect within the system to sign off on the letter to you. Would it be the Governor? Would it be the Chief Executive of the PRA?

*Mr Osborne:* I do not think we have prescribed that. I am trying to avoid setting out in intimate detail. If it is a letter from the Governor and the Chief Executive disagrees with it, I would certainly expect to hear, but one of the things we are again trying to achieve is a balance here, that the Chief Executive of the PRA—and I think Andrew Bailey has done an exceptional job heading that organisation—has a distinct role. Frankly, I would be open, if the Committee feels strongly in its deliberations that it should come from one or the other. You want the Governor, as the Chair of the Committee, to also be responsible, so it is a matter of judgment.

**Q340 George Kerevan:** It seems a difficult choice for the Governor to write a letter saying if he is independent of himself. It is a point to come back to. I am just probing where I found the Bill slightly opaque as written.

*Mr Osborne:* I am not trying to prescribe exactly how it operates. You have to allow an institution like the Bank of England to—

**Q341 Chair:** The Committee has not had a formal discussion about this but, as drafted, the Bill certainly is curious in that respect. It is something that has occurred to a number of us and points have been made to me about it. One possibility is to ask the Chief Executive to write that document. Another possibility would be to ask the senior external member to produce it. We would be grateful if you would go away and reflect on it.

*Mr Osborne:* I will certainly reflect on it. The choice is going to come down to whether it is the Governor or the Chief Executive of the Authority rather than an independent member, but I will certainly reflect on that.

**Chair:** Thank you very much for coming to give evidence. We promised that it would be primarily about the legislation before the House and, indeed, that is primarily what

has taken place. You will understand, of course, if we get interventions, thunderclaps outside this place, within 24 hours of a hearing, it is quite likely you will get the odd question about that too and we are very grateful for your replies on those two issues as well. Thank you for coming.