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RECORD OF THE FINANCIAL POLICY COMMITTEE MEETING

27 APRIL 2017

This is the record of the Financial Policy Committee meeting held on 27 April 2017.

It is also available on the Internet:
http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2017/record1705.pdf

The Financial Policy Committee (FPC) was established under the Bank of England Act 1998, through amendments made in the Financial Services Act 2012. The legislation establishing the FPC came into force on 1 April 2013. The objectives of the Committee are to exercise its functions with a view to contributing to the achievement by the Bank of England of its Financial Stability Objective and, subject to that, supporting the economic policy of Her Majesty's Government, including its objectives for growth and employment. The responsibility of the Committee, with regard to the Financial Stability Objective, relates primarily to the identification of, monitoring of, and taking of action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC is a committee of the Bank of England.

The FPC's next policy meeting will be on 21 June 2017 and the record of that meeting will be published on 4 July.

RECORD OF FINANCIAL POLICY COMMITTEE MEETING HELD ON 27 APRIL 2017

At its meeting on 27 April 2017, the Financial Policy Committee (FPC):

- Agreed that there were financial stability risks arising from the current structure for delivery of the UK High-Value Payment System (HVPS) and welcomed the Bank's plan to mitigate these risks through a move to the proposed direct delivery model for operating the HVPS.

1. On 27 April, the Committee met to discuss the current structure for delivering the UK High-Value Payment System (HVPS), in the context of the broader picture of evolving risks to systemically important financial market infrastructure. It had received a briefing from Bank staff in March on the operation of HVPS and requested further information on the financial stability risks arising from it. Since this briefing, work by the Bank on alternative structures had progressed, and the FPC met to review and discuss it.

2. The current delivery model for the HVPS involves a split in responsibilities across two institutions. The core infrastructure is provided by the Bank of England, as part of its Real Time Gross Settlement System (RTGS). CHAPS Co, a small private-sector company owned by its members is responsible for operating the system's governance and rulebook and managing risks across the HVPS as a whole; it is supervised by the Bank of England. This split is unusual internationally: the norm in most countries is for the central bank to deliver all aspects of the HVPS.

3. The Bank's assessment was that structural deficiencies in the current model posed risks to financial stability. Given the status of RTGS as critical national infrastructure and the primary embodiment of the Bank's balance sheet, CHAPS Co could not be given the full range of information on, or contractual control over, RTGS that it would need to identify and manage risks across the whole payment system, including in important areas of operational risk such as cyber risk and fraud. Such risks were becoming increasingly important and complex. The potential impact of these risks was further amplified as a new range of users sought access to payment systems. And the tolerance for even short periods of system outage had fallen. As a result, the resilience required of payment systems had increased commensurately, including both in the United Kingdom and internationally.[1]

4. While CHAPS Co had made a number of important enhancements to the existing model in recent months to reflect some of these concerns, these could not fully address the structural constraints described above; which was increasingly important when viewed in the context of the growing complexity of the external risk environment. As such, CHAPS Co was unable to fully meet regulatory expectations, and constraints with the current structure had been identified by the

[1] As set out in the CPMI-IOSCO Principles for Financial Market Infrastructures

IMF in its last two Financial Stability Assessment Programmes on the United Kingdom, most recently in 2016.[2]

5. Having reviewed this issue, including through public consultation, the Bank reported to the FPC that it was minded to conclude that a direct delivery model for the HVPS, similar to that operated in most other jurisdictions, would enhance the resilience of this important payment scheme, and therefore improve financial stability. Under this model, the Bank would be responsible for both the operation of the HVPS scheme and the RTGS infrastructure, allowing it to identify and respond to emerging risks in a holistic way, using the full range of tools at the Bank's disposal, and fulfil the regulatory expectations of the Bank as the supervisor of systemically important payments systems. The Bank had considered how to move to this model, and it had designed a model for the operation and supervision of the HVPS that would involve transparency, user voice and independent challenge.

6. On the basis of this assessment, the FPC concluded that there were financial stability risks arising from the current structure for delivery of the HVPS, including from the growing threat from cyber-attack. It welcomed the Bank's plan to mitigate these risks through a move to the proposed direct delivery model for operating the HVPS, bringing the Bank in line with the international norm. The Bank would maintain its role as supervisor of the HVPS.

7. The move towards a direct delivery model would be an opportunity for the Bank to provide the FPC with more comprehensive information on the HVPS. This was particularly important given the growing risk environment. The FPC would be given regular reports on the extent of systemic risks arising from the operation of the HVPS. By explaining steps the Bank is taking to mitigate those risks, these reports would improve the FPC's ability to satisfy its statutory obligation of identifying, monitoring, and taking action to reduce or remove financial stability risks. In addition, where the Bank was proposing material changes to the delivery of HVPS in the future that affected risks to financial stability, it would consult the FPC. The delivery of the HVPS itself would be the responsibility of the Bank, reporting ultimately to the Court of the Bank.

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[2] https://www.imf.org/external/pubs/ft/scr/2016/cr16156.pdf

The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor responsible for monetary policy
Charlotte Hogg, Deputy Governor responsible for markets and banking
Sam Woods, Deputy Governor responsible for prudential regulation
Alex Brazier
Richard Sharp
Martin Taylor
Charles Roxburgh attended as the Treasury member in a non-voting capacity.

Jon Cunliffe, Deputy Governor responsible for financial stability, Anil Kashyap, Donald Kohn, and Andrew Bailey, Chief Executive of the Financial Conduct Authority had participated in the FPC's discussion of this topic in March, but were unavoidably unable to attend the meeting on 27 April.