

Financial Services Bill

[Relevant Documents: The Fourteenth Report from the Treasury Committee, Session 2008-09, Banking Crisis: regulation and supervision, HC 767, and the Government and Financial Services Authority responses, HC 47, Session 2009-10.]

Second Reading

5.49 pm

The Chancellor of the Exchequer (Mr. Alistair Darling): I beg to move, That the Bill be now read a Second time.

As the House well knows, the whole world economy has been hit by a severe financial crisis, resulting in the worst global downturn for well over 60 years. Fundamentally, the crisis was caused by the failure of people operating in the market around the world fully to understand and keep up with the consequences of financial innovation and globalised markets: quite simply, people took on too much risk and became too exposed in relation to some products. There are clearly lessons to be learned by Governments, regulators and central banks, who in too many cases underestimated the threats posed by system-wide risks and did not fully appreciate the implications of financial activity outside the regulatory scope.

It has been necessary to make some major changes, including in the way firms are managed, which as I have said on many occasions is the first line of defence, and in relation to the quantity and quality of capital the banks hold, and in the way regulators monitor firms. Over the last year or so, we have already taken action to ensure that the UK authorities have powers to deal with failing banks, as well as to protect consumers and taxpayers. The Banking Act 2009 established a new permanent special resolution regime that has allowed the authorities to deal with failing banks and building societies. As the House knows, we have already used that measure in respect of the Dunfermline building society earlier this year. Similar powers in the emergency legislation that allowed us to nationalise Northern Rock also allowed us to deal with Bradford & Bingley when it got into difficulties. The House saw the problems we had before we had those powers, so the Act has provided us with a useful way to resolve things if banks get into difficulty.

In addition, the Financial Services Authority is implementing the conclusions from Lord Turner's recommendations on how to strengthen the regulatory regime. We have also seen the proposals on reform of corporate governance recommended by Sir David Walker in his report last week. Although those reforms may not have received as much attention as his proposed reforms of bankers' pay, they are all important and they all need to be implemented.

We have taken the lead in reforming international regulation through the G20 and the Financial Stability Board, as well as in the European Union, because international co-operation and co-ordination are very important, as we have seen. The origins of the problem may have been in only one part of the world, but within a matter of weeks it affected just about every part of the world. The days when we could be content that we had a regulatory regime that was fine for our own jurisdiction are behind us. We need to make sure that there

is international co-operation, and that it continues in the

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future. We have also taken measures to clean up banks' balance sheets, and the process has been worked through, including the introduction of the asset protection scheme.

The final part of the reforms we need to put in place relates to the powers available to the FSA, on which we consulted following my statement of 8 July. We published a White Paper and the Bill represents the conclusions that we reached following that.

Bob Spink (Castle Point) (Ind): I welcome the Bill as far as it goes, but is there not time even now to include some protection for consumers on the pre-payment of goods—for example, furniture, holidays and concert tickets? That would be a very good thing, and would help to build confidence.

Mr. Darling: I shall come to the Bill's proposals on consumer protection, which we need to do more about. I am very much aware of the campaign being urged on us about pre-payment. We had some experience of that with the Farepak problems a couple of years ago. The provisions are not in the Bill because at this stage of this Parliament I wanted to keep the measure sufficiently small and manageable to ensure that, as I hope, it will complete all its stages before the end of the Session., That is not to say, however, that legislation on further consumer protection will not be necessary. I shall turn shortly to the measures that I propose.

The purposes of the Bill are to build on the action that we took over the past year. We want to strengthen and reform financial regulation, as well as support better corporate governance and give more rights to consumers. The Bill ensures that prudential regulation and supervision of firms is more effective. It will place far greater emphasis on monitoring and managing system-wide risks and will tighten the powers available to the FSA on the remuneration of banks, which is important for financial stability, as well as providing consumers of financial products with better support and protection. Our central objective must be to ensure that as we come through these problems, we reform and strengthen the financial system and rebuild it for the future.

Mr. David Heath (Somerton and Frome) (LD): Is there not another set of players who could put pressure for good governance on the financial institutions? I mean the credit rating agencies. If they were to take adverse conclusions from short-termism, as evidenced by excessive pay or bonuses or by over-complex financial products, it could have a strong effect on the various financial institutions. Can the Chancellor encourage the agencies to do that, and if they will not—because they are paid for by those same businesses—is there any way of bringing them within a regulation process?

Mr. Darling: The hon. Gentleman raises a very real issue. He will recall that in 2007 there was a great deal of concern about the role of credit rating agencies, especially in rating the products that had managed to get the system into so much difficulty. I shall shortly be touching on EU proposals to make sure that credit rating agencies are supervised on a Europe-wide basis, because by their nature such agencies operate across several countries, so regulation by one country alone would not be sufficient. That is a major step forward, but America has to do the same thing, because credit rating agencies are based

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there too-indeed, sub-prime products and certain other products emerged from that side of the Atlantic. The hon. Gentleman makes a strong point.

I want to say a few words about the UK regulatory architecture, which is one of the areas on which there is a difference between the two sides of the House. I may be able to anticipate one of the arguments that will be advanced from the Conservative Benches about the architecture of our present system of regulation. To attempt to blame what has happened in the UK on our system of regulation, or the architecture or set-up we have in this country, does not hold water. If we look around the world, we see that just about every country has been affected by the problem, and whereas in this country we have two bodies responsible for regulation-principally the FSA, but also the Bank of England-most countries have rather more. In the United States, for example, several different organisations are all involved in the business of regulation. As I said when we discussed the matter briefly in the Queen's Speech debates last week, the US is trying to address that issue.

Every country's system has encountered problems, but what matters-certainly in my experience-is what the regulators actually do, and the judgments that they exercise. I strongly believe that any changes to the system need to build on experience and to address areas in which there have been deficiencies. The changes need to be practical and workable, which is why I am not persuaded about upheaval in the regulatory regime, or that bringing everything together in terms of monetary and regulatory policy for institutions large and very small makes any sense.

Obviously, the functions of institutions-the central bank, the financial regulator, and finance and economics Ministries, which in our case means the Treasury-are central to the maintenance of financial stability in just about every country. The organisational relationship we now have in the UK-involving the FSA and the Bank, which is responsible for financial stability too-is much simplified compared with what we had, and we can build on it.

Mr. George Osborne (Tatton) (Con): The House is less heated than it often is when we have these exchanges, which is a good thing, so may I ask the Chancellor in all seriousness whether he agrees that there seems to be a trend in many countries to try to put the central bank back in charge of prudential supervision-where it is not already in charge? I am sure the Chancellor has met Stan Fischer, the Governor of the central Bank of Israel and also former chief economist at the World Bank. He says:

"It is very likely that prudential supervision will return to central banks when the lessons of this crisis are drawn."

Jacques de Larosière-the architect of the European changes-says that

" in our present world it's good to have the central bank in charge of supervision."

Although of course there were many problems in many different regulatory regimes, one of the emerging consensus after what has happened is that central banks need to be in charge of prudential supervision.

Mr. Darling: I agree with the hon. Gentleman that this is not a case where there is a definite right answer, although there are plenty of definite wrong answers. This is not a case where I

am saying "Absolutely" from the start, so I think he is mistaken-I am not saying that

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at all. What I am saying is that we have made a distinction regarding the functions of the central bank, which essentially involve monetary policy-obviously-and macro-prudential issues, where the bank needs to take an overview of what is going on in the economy in terms of its monetary duties and financial stability.

A single organisation that deals with monetary policy and with some of the bigger macro issues, and which is responsible for the individual regulation of banks large and small, as well as of financial advisers, some of which are very small indeed, makes no sense. There are frequently times when it would be very tempting to tell one person, "You're in charge of the lot-sort it out. If you don't, everything will be your fault and you'll have to make way for someone else." However, we have to remember that when the Bank of England was responsible for the larger banks years ago, there were far fewer of them. They were also all very British, in the sense that they were based here and the people we had to deal with were here, not spread throughout the world. However, the Bank of England never dealt with the insurance companies, it could not deal with what happened in the '80s, when we saw the growth of bank assurance, and it could not and never did deal with some of the other financial institutions that can affect financial stability.

We can argue where we should draw the line, and wherever we draw it there will be anomalies. However, the system that we have-we should remember that the FSA took over from about nine different self-regulatory organisations 12 years ago-represents a sensible way to proceed. It is easy for the FSA and the Bank to work together, and the Treasury will always be at the table in times of crisis, for the perfectly obvious reason that any rescue will have financial implications. However, I honestly do not believe that bringing everybody under the same roof-it would be a very large roof indeed-makes any sense.

The hon. Member for Tatton (Mr. Osborne) mentioned Jacques de Larosière, who was asked to produce a report for the European Union, and I wanted to touch on that earlier, because the House will be interested to know where we have got to. In Europe we will not, of course, have a single regulator. De Larosière suggested, first, that there should be a council for financial stability, which is advisory, and that is fine. The European Central Bank clearly has a view as to what is going on in Europe, but of course, its relationship is not the same with every country, for perfectly obvious reasons. De Larosière is also setting up three agencies to look at different aspects of the financial sector. All that sits together with the individual national regulators, and that in itself-the hon. Gentleman and I might have more common ground here-is problematic, shall we say? We are trying to solve some of these problems, but they are there.

Mr. Osborne: On that point, I should mention that Jacques de Larosière took part in a meeting with my hon. Friend the Member for Fareham (Mr. Hoban). The Chancellor dwells on his views, so let me tell him what he said:

"Personally, having the experience of seven years at the Banque de France, and therefore also the chairman of the Commission Bancaire, I really think that in our present world it's good to have

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the central bank in charge of supervision. Because it is in the market every day...So personally, not as the author of the report"

-the Conservative party's report-

"I would very much support your proposals."

Mr. Darling: I am glad that the meeting with Jacques de Larosière was so convivial. As he was discussing the Conservative party's proposals, I was not there and I am in no position to comment on what he said. All that I would say is that having seen his report, I think that there are still issues that need to be resolved in terms of what can be regulated at a European level and what is regulated here.

In the United Kingdom we have a very complex financial services industry. Many of the banks operating in this country are regulated in different parts of the world even though they have major presences here. We have the banks and we have the insurance companies-we have a wide range of institutions. On the basis of my own observations and my experience over the last two and a half years, I would think long and hard about putting all those bodies under an organisation that was regulated ultimately, I suppose, by the Governor of the Bank of England, no matter who that happened to be. I would also worry-this is not just my worry; it has been repeated outside the House-that if we made the changes that the hon. Gentleman proposes, there is the risk that someone may take their eye off what they are supposed to be doing, and we get into difficulties, although I know that the hon. Gentleman has given assurances on that subject.

The structure that we have with the Bank and the FSA is the right one. We are not going to agree on that, and there will always be an argument as to where we draw the line. However, I draw it on a purely practical basis, because the most important thing that we need to keep in mind is not so much the architecture. At the end of the day, we can make any organogram work, but what matters is whether we know what is going on in the first place, and when we find out what is going on, whether we make the right calls and see the process through. If we get that wrong, it really does not matter how we have brigaded all the regulators. The most important thing is making the right calls.

Ms Sally Keeble (Northampton, North) (Lab): Will my right hon. Friend comment on an issue that has been of some concern to me? If we return all the supervision to the Bank of England at a time when quantitative easing is going on as well, the Bank would be trying to do two things: it would be trying to reflate the economy at the same time as it was trying to supervise the institutions involved. There could be a real conflict of interest over what the Bank was doing.

Mr. Darling: That could be the case, but the Bank's principal responsibility for 10 years related very much to monetary policy, and quantitative easing is part of that. I worry what we would bring to the issue if we simply backed the FSA into the Bank of England, other than that one person would nominally be in charge of the whole organisation.

As I have said, I understand the case that others make, but I approach it from an entirely practical perspective and regrettably-I use the word advisedly-I have had a lot of experience of this issue in the last two

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and half years. I have observed first hand some of the do's and don'ts, and I may set them down one day-[Hon. Members: "Ah!"] Some of my proposals and the lessons that I draw are reflected in the Bill. I do not want to labour the point; I simply think that the proposal to put everything under the Bank of England is inherently risky, and I would not do that.

Mr. Mark Field (Cities of London and Westminster) (Con): I agree with what the Chancellor says, broadly, about the practical application. However, in what he said to my hon. Friend the Member for Tatton (Mr. Osborne) he recognised that there is a fundamental difference in the outlook of the Labour party and that of the Conservative party. Is he not concerned that the increase in the FSA's powers proposed in the Bill comes at a rather strange time, given my party's commitment to get rid of it? How will we be able to employ the brightest and the best to take on these new powers if the sword of Damocles will be hanging over the FSA in the-probable, I hope-event that we have a Conservative Administration before too long?

Mr. Darling: I do not really think that that is a problem of my making. However we organise things, we need to ensure that the regulator has sufficient powers, and I would like now to say why it needs those new powers, because I think that they are necessary no matter what we do.

Stewart Hosie (Dundee, East) (SNP): Will the Chancellor give way?

Mr. Darling: May I make some progress before coming back to the hon. Gentleman, or does he want to ask me a generalised question?

Stewart Hosie: I agreed with the Chancellor when he said that the difficulty was not the structure but whether someone takes their eye off the ball-but I hope that he can explain something. We have had Bank of England stability reports for 20-odd years. The stability report immediately before the crash in 2007 said:

"The UK financial system remains resilient...well capitalised and highly profitable."

It referred to

"strong flows into riskier assets"

and "structural developments", but it said that there had been an increase in

"the risk-bearing capacity of the system."

The entire document was filled with such comments and contradictions. So irrespective of the structure, how can the Chancellor ensure that we do not get a document from the new Council for Financial Stability that takes its eye off the ball like that, or glosses over very real risks once they are identified?

Mr. Darling: First, the hon. Gentleman rather makes my point that, never mind the architecture, what matters is that the people who are charged with doing the job actually do it. They will not always get it right, but although some people say that they saw all this coming-

some of whom, I am bound to say, forgot to tell anyone else that they could see it, but I am sure that they could-it is important that we have regulators and supervisors who do the job.

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Secondly, the Bank of England or the FSA produce reports at the moment, but the reports can just lie there. Of course, many reports were acted upon, and many of them picked up in one way or another, but one of the things that I want to achieve through the Council for Financial Stability, which I shall come to in a moment, is a more formal process, so that when the Bank of England publishes its six-monthly reports, the council-the FSA, the Bank of England and the Treasury-must consider them and decide what to do about them. That is a better way of holding people to account.

Mr. Andrew Pelling (Croydon, Central) (Ind) *rose-*

Mr. Darling: I will give way to the hon. Gentleman, and then I shall make some progress.

Mr. Pelling: The Chancellor emphasised the importance of international co-operation and the associated complexity. Under the Bill, the FSA will have discretion to work in that area. Obviously, this aspect of regulation is of fundamental national interest, given the impact on the City's earning capacity. Under the Bill, how will Parliament be able to scrutinise and have some control over the FSA-to the extent that important interests might have to be given away in such negotiations with European regulators?

Mr. Darling: I will come to that shortly, but I should like to do so in what I think is a logical order.

Following on from the exchanges over the past five or ten minutes or so, I have to say that it is important to formalise the relationship between, especially, the Bank and the FSA as well as the Treasury, so that we can ensure effective co-ordination. The council's draft terms of reference, which we have published today, set out the roles for each member institution. Under the Banking Act 2009, we formalised and strengthened the role of the Bank of England in protecting financial stability. We provided the Bank with a statutory objective of financial stability-it did not have that statutory objective until this year-and a lead role in dealing with failing banks under a special resolution regime. Alongside the Bank's responsibilities for monetary policy, liquidity, the oversight of inter-bank payment systems and its role in monitoring the financial system as a whole, that will give the Bank an enhanced supervisory role, as well as a role in assessing a firm's resolution plans-living wills, as they are commonly known-because it should also have that responsibility.

The FSA, which is the single regulator, brings into one place the work of up to nine different regulatory agencies that were in place 12 years ago. As I told the hon. Member for Tatton, other countries have multiple regulators. For example, Hong Kong, China and India have separate regulators for banking, insurance and securities. The US Administration are trying to rationalise a highly fragmented regulatory model. Indeed, they are proposing a council that sits on top of the regulators because, for various reasons, they think that it will take too long to try to bring together the other regulators, even if they had congressional agreement to do

so. Of course, in America many of those responsibilities are devolved to individual states, thus making the regulatory regime very complex indeed.

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By contrast, we have one regulator, and we are building on the advantages of the single regulator by enhancing the FSA's objectives and powers, to ensure that when conducting its supervision of individual banks, it takes into account the systemic risk that may be faced. That new macro-prudential element will enhance its ability to monitor, assess and mitigate risks to the country's financial stability. Of course, that sits alongside its new duties in relation to remuneration and living wills, to which I will return shortly.

As the hon. Member for Croydon, Central (Mr. Pelling) has said, this crisis has also demonstrated the need to ensure that we have international co-operation, and we need to make sure that the Bank of England and the FSA work closely together on that. Clauses 1 to 4 will set up the new Council for Financial Stability, which will be responsible for considering emerging risks to the UK's financial stability and, as he has said, to the global financial system and for ensuring that we can co-ordinate the response by our authorities.

The council will comprise the Governor of the Bank of England, the chair of the FSA and myself. It can draw on external expertise if necessary, but it will put that relationship on to a more formal, transparent and accountable basis. For the past 10 or so years, the relationship has been governed by a memorandum of understanding. I do not think that that is sufficient; it should be formal, based on statute, transparent and accountable. The authorities can then be held to account, and we can have greater parliamentary scrutiny in the House and the other place, as we set out in clause 3. Even though I suspect that the Bill will be going through the House for some weeks yet, we will ensure that the council is established beforehand, so that we can see that it is working and publish its minutes, as proposed.

Clause 5, 7 and 8 will strengthen the FSA's objectives, by providing it with an explicit financial stability objective. When conducting its supervision of individual banks, it needs to take into account overall systemic risk.

As I said, and as hon. Members have mentioned, the crisis has also shown that financial stability is not contained within national boundaries. We need a strong domestic regulatory system, but we also need co-operation. Clause 8 will formalise the FSA's responsibility to work internationally and to promote effective international regulation. It has been doing that already, particularly in relation to the colleges of regulators, which have been established over the past couple of years, to ensure that some of the larger institutions that span several countries are monitored by individual regulators, so that they can see what is going on and understand the risks to which they might be exposed.

The hon. Member for Tatton asked about Jacques de Larosière's report, which will be on the Finance Ministers' agenda when we meet in Brussels on Wednesday. The European Union is trying to establish a new European systemic risk board, which will issue non-binding risk warnings and make recommendations. I believe that that is right and entirely sensible, and we will support it. Of course, that must go hand in hand with some more detailed, micro-prudential proposals on the European supervisory authorities, of which three are proposed to deal with banking securities, insurance and occupational pensions. They will have enhanced

roles, but it is very

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important that we recognise that some things need to be done at a Europe-wide level. That makes a lot of sense to us. For example, some of our problems with Icelandic authorities would have been more easily resolved if they had come within a regime that allowed us to get hold of the situation before it reached a critical stage. There is a lot to be said for that, but it is important that certain things remain with us because, at the end of the day in any crisis, only national Governments have the resources if a rescue needs to be mounted. That is why one of our red lines is that we cannot have a situation where any of those new authorities can impinge in any way on the fiscal responsibility of member states. It is important not only that that is clearly stated-I believe that it will be-but that the mechanisms in place ensure in reality that the responsibility for any fiscal action lies with member states. That is how it should be; it is not something that can be effected even by the Commission or any of its agencies.

It is important that we get right the regime for who would have the power to declare an emergency. At the end of the day, that must be a matter for the European Council-the people who are elected-rather than for an agency or the Commission. It is also important that direct powers over firms are curtailed, so that such powers exist only where absolutely needed. Individual regulation must be a matter for the member state and for the Government concerned.

Mr. William Cash (Stone) (Con) *rose-*

Mr. Darling: I did not think for one minute that I would get through a passage on Europe without the hon. Gentleman getting to his feet.

Mr. Cash: I entirely agree with the Chancellor in his prediction. With respect to majority voting and the architecture that has been devised under the regulations, which we will debate again later this week, how is it that he can talk about national supervision, somehow giving an impression that we might be in control, when the real question is whether we are governed by majority voting in all these matters, as a result of which we will not be able to sustain the kind of City of London that we need in relation to GDP, as I said to the Prime Minister the other day? What is the Chancellor's answer to that question?

Mr. Darling: My answer is that in a world where many financial institutions operate in this country and in other European states, as well as in other parts of the world, there has to be greater co-operation. Look, for example, at what has been happening over the past couple of years or so between us, the Swiss authorities, the American authorities and the European Union. It is not in our interest to create a situation where an institution can escape the attention that it needs by going to a place where there is not sufficient supervision, but at the same time operate in countries where it can cause substantial damage. There must be increased co-operation.

Iceland is a good example. It is not in the European Union, though it wishes to join at some stage, I believe, but it is in the European economic area. One of the Icelandic banks was operating in London with its headquarters in Iceland, but we did not have sufficient levers to head off some of the problems because we did

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not have the powers to do so. It could well be in Britain's interest in the future to be able to

use the leverage of European supervision to try to ensure that we are not adversely affected by what we regard as a failure of regulation or insufficient regulation in another country.

It is a fact of life that the financial services industry is about as mobile as it is possible to get. The last couple of years have demonstrated that, if anyone had any doubt about it. That means that it is in our interest to ensure that there is adequate supervision at a European-wide level, but I am clear that if an institution gets into difficulties and, for example, has to raise capital from a Government because it cannot raise it on the markets, that matter will very much be the responsibility of the individual state.

Where the hon. Gentleman and I part company on this occasion is that he has an aversion to most things European. He does not accept that the world has moved on. It is now a much more complex place. That means that we have to decide on those areas where it is in our national interest to work with our European partners and those areas where we and other member states rightly say, "No, this is a matter for which, at the end of the day, each nation state has to be responsible."

Mr. Mark Todd (South Derbyshire) (Lab): I agree with all of that peroration but enter the cautionary remark that the venture of some European leaders into attempting the regulation of hedge funds and private equity is not an entirely reassuring model if one is looking for European regulation of the wider financial sector.

Mr. Darling: I am clear that we should accept those areas where it is in our interest to co-operate, but there may be other areas where that is not the case. There is a general point to be made in relation to Europe. Ten or 15 years ago, people talked about the competition between London, Paris, Frankfurt and so on. The decision that we have to make now in Europe is whether we want a world-class financial centre in Europe. The competition is now coming from different parts of the world.

It is in Europe's interest that London, principally, and the UK financial services industry is properly supervised and regulated and is in a position to carry on attracting business and doing business throughout the world. That means that we will need co-operation within Europe, with the American regulators, with the Swiss regulators and with regulators all around the world. The red line, as far as I am concerned, is that if we are talking about a national Government having to provide capital, that must be a matter for that Government. It would not be right for everyone else to visit on one Government something that may have severe financial consequences.

My hon. Friend mentions the directive on hedge funds that is going through the system. Of course there are areas where we must ensure proper supervision and regulation, but there are some people who would like to stop the business entirely. I cannot agree with that.

Mr. Pelling: The Chancellor raised the European issue too early in his speech. Surely we should have our eyes open and be aware that Frankfurt and Paris will see an opportunity to challenge London's primacy on the European markets. More importantly, unless the red lines are robust, is there not a danger of mission

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creep from regulators in Europe? The combination of a dirigiste approach to regulation and the past history of the FSA of putting through a lot of irrelevant regulation which, in the end,

did not save us from the crisis, could mean that we have a tremendous burden of more micro-level issues than the rather grander macro issues which, as the right hon. Gentleman says, are important for European regulatory co-operation?

Mr. Darling: I agree with much of what the hon. Gentleman says. There is always a risk that we end up with national regulators and international regulators, with one set of regulations on top of another, and no clarity about who is responsible for what. There is sometimes a belief that if enough regulations are passed, the problem will be solved. Far from it—that might even create a few problems. That is why it is important to be clear about what needs to be done internationally.

For example, by proposing that we set up colleges of regulators, we cede some of our authority by saying that we will work with Americans and with regulators in the far east, but we do that because it is in our interests. We do not want a situation to arise where only one regulator has a partial view of what is going on in one particular institution. If it comes a cropper, all of us will have to pick up the pieces. It is important to bear in mind what the hon. Gentleman says, but this country has argued for constructive co-operation for a considerable time, although when my right hon. Friend the Prime Minister first raised it in the early 1990s, there were not many takers because people did not think there was a problem. As we have seen in the past couple of years, there most certainly is a problem which needs to be sorted. That case is made.

Mr. Graham Stuart (Beverley and Holderness) (Con) *rose-*

Mr. Darling: I shall give way to the hon. Gentleman, then I shall move on to a different topic.

Mr. Stuart: Does the Chancellor see a problem with vesting regulation in the European level, rather than co-operating on regulation at the European level, when, as he rightly says, the financial costs of any failure of regulation will fall wholly on the nation state?

Mr. Darling: I would put it this way: there is much to be said for co-operation. Many of the financial institutions in this country would say that it would be very useful to have a common rule book. Then they would not have to have a different regime for Britain, France, Germany and so on. In such a case, co-operation is essential, and I would like to see that. The problem probably arises not in normal times, but when there is a crisis. Then we must be clear about who and what triggers that emergency and who decides what needs to be done. At that point, particularly when it comes to fiscal consequences, which is essentially a matter for national Governments, they must be clear that it is they who make the decision.

As I have said to hon. Members in the past, we naturally look at these matters from our point of view, and sometimes look at it only in terms of what we would do if we were on the receiving end. I can easily envisage a situation some time in the future when we will want Europe, if it can, to put pressure on a regulator

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in another part of the European Union to do something about one of its banks. That could have a knock-on effect on us. The point is that co-operation is needed, but we must be clear who is responsible for what.

I shall deal briefly with other parts of the Bill, which may or may not be of interest to the House. Clauses 14 to 17 give the FSA greater disciplinary powers to suspend individuals and firms for misconduct. In clause 13 we are introducing a power to give the FSA power to ban short selling. The ban that was imposed in September 2008 was based on the market abuse directive. It is better that it should be based on the Financial Services and Markets Act 2000, which is what we are doing.

Stephen Hammond (Wimbledon) (Con): The Chancellor is right that that is being done through the FSMA, but the powers on short selling are being vested in the general market abuse rules in that Act, implying that any short selling is a market abuse.

Mr. Darling: The Bill does not say that, and that is not my view. When the ban on short selling was introduced last year, I made the point that we were not saying that short selling was bad per se. However, in the particular circumstances and at that time, when financial stability was a big problem, action needed to be taken.

Clause 30 gives the FSA greater powers to gather information, and clause 11 allows the FSA to take powers on remuneration and, if necessary, to prohibit certain remuneration practices. They are based on the important principle that we should avoid the situation whereby the remuneration practices of firms lead to people being rewarded for doing things that eventually bring down the institutions in which they work. That is something that we and, certainly, the institutions should not forget. If too many people in a bank engage in what is, frankly, speculative trading, they run the risk of bringing down their institution. There is a clear public interest in that situation, because there would be consequences for the public purse if such practice were not properly regulated.

That part of the Bill is very important. It includes powers to implement the agreements that we reached in the G20 and those that we finally reached in Pittsburgh a few weeks ago, and it gives the FSA the powers that it needs not just to prevent such irresponsible pay, which has proved so damaging, but to implement Sir David Walker's proposals on disclosure. On that point, I can tell the House that we will table regulations on disclosure to go with the Bill.

Sir David made a number of recommendations, but I think that we go further than he suggested. We want to consult on regulations for narrower disclosure bands than he proposed, starting with salary packages below the £1 million floor that he suggested. We will consult on that idea, but most people are convinced that far more disclosure is important, because they will then be able to see precise remuneration practices.

Ms Keeble: There has been some discussion about whether the Equality and Human Rights Commission will be able to look at disclosure and the studies of remuneration to see whether there is discrimination on

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pay banding. Will my right hon. Friend support that idea as part of an attempt to address the position of women in the City?

Mr. Darling: I understand that the commission would certainly be able to look at that issue, and I am sure that no one in this House wants to see discrimination. People should be judged and rewarded on their merit, and that is precisely the point, because rather too many people were not judged and rewarded on their merit. Indeed, some rewarding structures seem to have

had completely the opposite effect, and I am sure that there would be no difficulty with the commission doing what my hon. Friend suggests, should it wish to do so.

Clause 12 gives the FSA powers to ensure that there are resolution procedures for the larger banks and some building societies-procedures commonly referred to as living wills. It is very important that larger institutions have plans so that, if they get into difficulty, people are clear, before that difficulty arises, about what the institutions would do. That measure will help the regulators better understand what are, in some cases, complex structures-structures that have been put together for tax reasons.

The regulators will also know the resolution options that might be applied, and they will be able to consider the obstacles to such resolutions, including, for example, complexity. If large institutions get into trouble, it will be clear which regulators will take responsibility, which countries will take responsibility and how the firms will be disengaged, so that those parts that are important for financial stability are stabilised, investors' and depositors' interests are maintained and credible measures are taken to deal with any difficulties that might be encountered. That is a very important part of the Bill. The clauses may be small in number, but they will have a very real effect, I hope, on the future. We have to reduce not only the probability of a firm's failure, but the impact of that failure, should it occur.

Stephen Hammond: The Chancellor is absolutely right: that is a very important part of the Bill. However, will he explain why the Bank and the Treasury have the power to make recommendations, and to recommend action, on those plans to prevent such a crisis from occurring, yet the SFA does not have to undertake to implement the actions proposed by either the Bank or the Treasury?

Mr. Darling: I think that the hon. Gentleman meant to say the FSA; the SFA is the Scottish Football Association. At the end of the day, the FSA would have responsibility in those circumstances, but it would obviously consider what the Bank and the Treasury had to say. Unless the FSA had very good reasons, it would be very difficult for it to turn down any helpful suggestions from either body, not least from the Treasury, as the Treasury, if the worst came to the worst, would have to provide the funds. However, it would not be quite the problem that the hon. Gentleman makes out. None the less, the introduction of resolution regimes is very important. The hon. Member for Twickenham (Dr. Cable) will no doubt again advance the cause of breaking up such banks from the start, but, as I have said before, I do not think that that is right. There is a far better way of dealing with the situation.

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The second part of the Bill that I want to deal with relates to supporting consumers. I shall do so fairly briefly, although it is important. It is important that we encourage people to know more about financial services and to understand the benefits and risks. Clause 6 gives the FSA the power to establish an independent consumer financial education body, which will deliver the implementation of the **money guidance** service from spring next year, as recommended by the Thoresen review a couple of years ago. The service has already been tried out in the north-west, and I understand that it is working. However, it is important that we can encourage people to know more about and understand the financial system, especially

as it is in our interest to ensure that people save more and take advantage of financial products. That requires a certain amount of knowledge, however.

Clause 26 includes an important provision that addresses a problem that we have had for several years. There have been several instances in recent years of a large group of consumers having suffered detrimentally at the hands of regulated firms. The clause will give the FSA the power to obtain redress and compensation more easily. Basically, it allows the FSA, if it thinks that there is a problem, to implement an investigation. If the investigation uncovers a problem, that will then be remedied and a solution will be imposed.

I can think of two instances in which that provision would have been helpful: the mis-selling of personal pensions in the late 1980s and, more recently, bank charges. The FSA will have the power to do something without having to wait for court action. In addition, clauses 18 to 25 establish a new form of collective proceeding to allow for a new form of class action. I do not want to see the widespread development of such action, as there has been in the United States, so the provision is more tightly drawn. However, it means that, if there is a remedy, a class action can take place and, I hope, the matter can be resolved. That is a new development in UK law and the first example of our allowing group action in the courts for people with similar claims, but it is an important thing to do.

Bob Spink: Has the right hon. Gentleman considered, or will he comment on, the possibility of an opt-out for class actions, rather than an opt-in?

Mr. Darling: We will give the courts the discretion to allow both. I know that there is a lobby outside the House on that point, but people have the right to say, "I don't want to come into this, because it might compromise my rights elsewhere," so it is best to let the courts have the discretion to look at the individual merits of the case. No doubt that point can be argued in Committee, however.

The Bill contains powers to stop the issuing of unsolicited credit card cheques, which has proved very troublesome especially for people who do not have the means to prevent that from happening. We amend the Financial Services Compensation Scheme to allow it to act as an agent for a foreign scheme so that people do not have to go abroad to get their remedy but can go through the UK organisation. There is also a technical change to the recovery of funds when the Banking Act 2009 is used in relation to a failing bank.

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The powers in the Bill are essential; they will enhance and strengthen the supervisory regime. Taken together with the existing powers in the 2009 Act, they go a long way towards having a stronger and more effective regulatory system. As I said, what matters at the end of the day is that we have, not just in this country but across the world, regulators and supervisors who are doing their job. It is vital that those responsible for running financial institutions understand what we are doing. They should not be afraid sometimes to question what is being suggested, but they should be willing to take strong action themselves to ensure that they do not get into the difficulties that we have seen over the past two years. I commend the Bill to the House.

6.41 pm

Mr. George Osborne (Tatton) (Con): Let me begin by apologising to the Chair for my not being here for the winding-up speeches. I have let the Chancellor and the Liberal Democrat spokesman know about that. In fact, I suspect that not many Members will be here, because although this Bill is supposed to be the centrepiece of the Queen's Speech, it has not exactly grabbed the attention of Parliament. That does not mean, however, that these issues are not very important.

In the past two years, we have witnessed a catastrophic failure of bank regulation-arguably the greatest failure of financial regulation that this country has ever seen-which has contributed to the longest and deepest recession in this country since the 1930s and a huge loss of national wealth. The exposure of taxpayers to £1 trillion of guarantees and capital support has required them to undertake the largest bank bail-out of any country in the world.

If we want to understand how completely ignorant the regulatory system was of the problems brewing in the financial system that were about to explode, I suggest that we remind ourselves of the Mansion House speech that the then Chancellor gave on 20 June 2007-just a few days before he became Prime Minister and just a few weeks before the credit crunch began in earnest. I was there; I sat, as I remember, alongside the Financial Secretary to the Treasury, who was here earlier in the debate. We heard the then Chancellor lavish praise on the assembled financiers, making the portentous claim that we were entering what he predicted was

"an era that history will record as the beginnings of a new golden age of the City".

That turned out to be about as sensible as his golden rule and his gold sales. I think that from the country's point of view, the less the Prime Minister uses the word "gold" the better.

Of course, the so-called beginnings of a new golden age were in fact the very end of a huge financial bubble. The regulatory system did not understand what was going on. It believed its own propaganda about a new age of stability that it had created. It did not understand the fragility of the funding models of our major banks, it was completely ignorant of the risks being run with leverage, and it was drastically ill prepared for what was about to happen.

Mr. Barry Sheerman (Huddersfield) (Lab/Co-op): I have been to several meetings in the City at which the hon. Gentleman has spoken. Could we have a look at

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some of his speeches from about the same period, which I remember also included glowing endorsements of the City?

Mr. Osborne: I am not claiming that anyone in the House fully understood what was going to happen. However, I did warn in 2006-I do not remember a single member of the Government saying this-that an economy built on debt is an economy built on borrowed time. The hon. Gentleman might remember-he probably put them in his election address-all those claims about having abolished boom and bust and the economic cycle: about how Britain was better prepared and how this was a new age of stability. If he does not remember, let me reassure him that over the next few months we will be reminding him and his constituents of all the things that were said.

The crucial point is that such was the regulatory regime of our banking system, and these were the people who were supposed to understand the risks that were being run. Although it is true, as of course the Chancellor said, that other countries have experienced some very severe problems with their banking sectors-the United States, the Netherlands, Belgium and so on-there are also examples of banking regulatory regimes that got it right. The Spanish banks are in much better shape than the British banks because the Spanish central bank banned some of the off-balance-sheet vehicles that became prolific in this country. The Canadian central bank imposed a leverage backstop, which was never considered here. The Australians, whose central bank pursued a "twin peaks" model of regulation, still have four double-A rated banks. There are examples of banking systems that got it right, while it is generally accepted that Britain's was the most exposed. Indeed, this morning we heard that Canada has come out of recession, which means that Britain is the last country in the G20 still in recession. That shows how exposed we have been.

Ms Keeble: I agree with the hon. Gentleman that there are genuine issues about people not spotting what was coming. However, the Bill is partly about supervision and regulation. In all the hearings with the Governor, I do not remember him sending out clear warnings about what was happening. There was general discussion of debt, but I do not recall people talking about the exact mechanisms that caused the problems. That is partly why I think that maintaining the FSA-of course, it has had its problems-is the right way to proceed instead of going back to a system that was itself somewhat flawed.

Mr. Osborne: The hon. Lady might remember the words of a previous shadow Chancellor, my right hon. Friend the Member for Hitchin and Harpenden (Mr. Lilley), who spoke for my party during the passage of the Bill that became the Bank of England Act 1998:

"With the removal of banking control to the Financial Services Authority...it is difficult to see how and whether the Bank remains, as it surely must, responsible for ensuring the liquidity of the banking system and preventing systemic collapse."-[*Official Report*, 11 November 1997; Vol. 300, c. 731.]

Ms Keeble: I would not dispute what are clearly the facts. My concern is that the hon. Gentleman-the right hon. Gentleman-is proposing that supervision
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and regulation should go back to the Bank of England. I saw no evidence that more warnings came from the Bank about the crisis that was brewing than came from the FSA.

Mr. Osborne: The hon. Lady was right first time-I am an hon. Gentleman, not a right hon. Gentleman.

I am not claiming that the Bank of England got it right; I have said so in private at the Bank as well as in public. However, it did warn-not often enough, not loud enough, and certainly not much listened to by anyone-that, for example, the housing boom was developing at a pace that was beginning to alarm it.

Let me explain why I think that a change in the structure of regulation, as well as its content, would help. After everything that we have been through, it is pretty remarkable that the Government are not asking some big fundamental questions about the structure of regulation that they set up. Almost every other country in the world is proposing considerable changes

to its regulatory structure. As far as I am aware, only in this country, of all the major economies that had a banking crisis, are the Government content to stick with the existing system. Of course, we know exactly why that is. Everyone knows that if Labour Members were in opposition or were not currently led by the man who was Chancellor when the system was introduced, they too would be looking at changes to the structure of regulation. They are wedded to defending the current system because it happened to be introduced by the man who leads them. The proposal was developed, completely in secret, in opposition. It was, I believe, kept in a safe in the hotel bedroom of the hon. Member for Coventry, North-West (Mr. Robinson), and deployed, without any warning, two or three days after the general election. The then Governor of the Bank of England, the late Eddie George, almost resigned as a result. There was then a hasty consultation and the measure was introduced. We are now stuck with the Government defending this system for the simple reason that the Prime Minister thinks that there will be some reputational damage to him if he admits that it has not worked very well. I have to tell him that the reputational damage has already been done.

Mr. Geoffrey Robinson (Coventry, North-West) (Lab) *rose-*

Mr. Osborne: We are about to get the codes to the safe.

Mr. Robinson: May I just deal with the point about the late Eddie George's attitude? I was in on most of the meetings at that time-of course, the then Chancellor was in on more of them-but when the issue of the Bank of England's overall responsibility for systemic integrity was discussed, the then Governor's principal concern was that he would have enough money to deal with that, and to inject liquidity where necessary. He had in mind a ridiculously small amount of money at the time, and we gave it to him. On that basis, so long as he was left with that responsibility and had the money he thought necessary, he went along with the proposal and indeed welcomed it in subsequent speeches.

Mr. Osborne: This is not particularly fair to the late Eddie George as he is not here; however, I, too, had several conversations with him about precisely what

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happened. My conversation with him seems to have been somewhat different from the one the hon. Gentleman had. The Bank of England was not consulted, and this fundamental proposal was made on the future supervision of banking. Given that we are discussing, 12 years later, the biggest failure of banking supervision, it is worth going back to that moment.

One of the reasons why I-as the current shadow Chancellor, who hopes to be in the Chancellor's job in a few months' time-have decided to publish our proposals and make a big effort to consult on them and talk to as many people as possible, including the three different parts of the tripartite regime, is precisely so that I can get my thinking right in opposition, rather than just deploying the whole thing two days after a general election, which I could of course do, following the previous model. I will come to the structure of our proposal, but also to why we think it is necessary. I will deal later with the content of regulation because I completely agree with the Chancellor that that is very important as well, but we have to look at the structure of the regulator.

We have a tripartite regime under which no one knows who is in charge and who is giving official policy. We have a Governor of the Bank of England who regularly gives interesting speeches-at Mansion House, and in Edinburgh recently; he also gave evidence to the

Treasury Committee last week-on how he thinks banks should be regulated. His views are very interesting but they bear absolutely no resemblance to official Government policy as just stated at the Dispatch Box. We have a chairman of the FSA, a man of great integrity and intelligence, who says that quite a lot of the activities of the banking sector are "socially useless". I do not know whether the Chancellor of the Exchequer or the Prime Minister share that view, but it has certainly been noticed not just in the City but around the world. And we have a Prime Minister who turns up at the fag end of the G20 Finance Ministers meeting and announces to a completely stunned audience-no doubt including the Chancellor-that he is in favour, suddenly, of a Tobin tax. The United States Treasury Secretary then has to give an immediate reaction to that view, and of course rubbishes it.

So those who would ask "What's the view on financial services from the UK authorities?" would get three or four completely different views; that is how dysfunctional the current relationship is. The Chancellor deals with it much more than I do, but even my own dealings with the different legs of the tripartite regime-one group of people told me something completely different from the previous group who came to my office-suggest to me that this relationship is not working particularly well.

The answer to all this is apparently contained in clause 1, which I remind the House says:

"There is to be a Council for Financial Stability, consisting of...the Chancellor of the Exchequer...the chair of the FSA, and...the Governor of the Bank of England."

The Chancellor will be the chair of the council, which will

"keep under review matters affecting the stability of the UK financial system".

That is what the great change is supposed to be: a Council for Financial Stability consisting of the Chancellor, the FSA and the Governor. I did a little bit of research,

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and the memorandum of understanding that originally created the tripartite regime created a standing committee-not a council-on financial stability, which

"is chaired by the Treasury and comprises representatives of the Treasury, the Bank and the FSA. It is an important channel for exchanging information on threats to UK financial stability".

Unless Members can explain to me the fundamental difference between a council and a standing committee, it is not clear what this Bill achieves regarding the regulatory structure. Indeed, the only difference I can spot is that, according to the memorandum of understanding, at least the standing committee was required to meet once a month. According to the Bill, the Council for Financial Stability will be required to meet only four times a year, so the number of required statutory meetings has actually been reduced.

Nor is the Chancellor required to turn up to the council. Perhaps the Chancellor can confirm this for me, but I think that in the entire period when his predecessor was Chancellor-10 years: the longest time that anyone had been Chancellor for a century-he never once physically attended the tripartite committee. There was one joint telephone conversation with the US authorities and the US Treasury Secretary; that was the only time the then Chancellor

took part in the meetings of the tripartite committee-on the telephone. So it is not exactly clear how this proposal will fundamentally change things.

Mr. Robinson: We do not want this Second Reading debate to become a Committee stage debate, but will the shadow Chancellor kindly explain to the House precisely how his new arrangement is going to work, involving as it does, as I understand it, a block transfer of the FSA and its head into the Treasury? Therefore, the chair of the FSA and all its huge responsibilities will be subject to the Governor of the Bank of England, and the FSA will have no chance to make its own representations separately or "legitly" to the Treasury, with whom ultimately the real responsibility in a crisis would reside. The hon. Gentleman has been talking about relationships. How is the relationship going to work between, presumably, the head of the FSA and Governor?

Mr. Osborne: If the hon. Gentleman will allow me, I will come to that in just a couple of minutes.

I want to put on the record what some other people, not just the Conservative party, have said about the proposals in the Bill. The Treasury Committee, chaired by the right hon. Member for West Dunbartonshire (John McFall), said that the proposals are a "largely cosmetic measure", and that

"merely rebranding the Tripartite Standing Committee will do little in itself".

The Association of British Insurers, one of the big represented bodies, says:

"What is not clear from the Government's proposals is how the proposed Council for Financial Stability would actually operate or what powers it would have to require the FSA and the Bank of England to pursue particular policies."

Indeed, the ABI says that clause 5, which gives the FSA explicit responsibility for financial stability-just months after the last banking Bill gave the same explicit responsibility to the Bank of England-will

"exacerbate the confusion of responsibility between the Bank and the FSA".

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Indeed, the Chancellor did not address the elephant in the room: the views of Mervyn King, the Governor of the Bank, who said this to the Select Committee:

"We were given a statutory responsibility for financial stability in the Banking Act, and the question I put to you...to which I have not really received any adequate answer from anywhere, was: what exactly is it that people expect the Bank of England to do? All we can do at present, before a bank is deemed by the FSA to have failed, is to write our Financial Stability Report and give speeches."

The Chancellor mentioned the new power concerning financial stability that he has given the Bank of England, but its Governor-the other member of this tripartite arrangement-came

before our Select Committee and said that he does not have a clue what the Chancellor expects him to do with it.

It is for these reasons that we have decided that we will need new legislation to bring in a new structure of financial regulation. I have to be absolutely honest with this House: it is not something we particularly wanted to do. There are quite a few economic issues that we are likely to confront if we form a Government, and revisiting financial services regulation was not at the top of our list. However, we honestly came to the view that we would have to do it, because we have to create a system that gives a clearer idea of who is in charge, and that ends these dysfunctional squabbles between the three institutions; a system under which the people in charge can exercise judgment and discretion, and through which the connection is made between the broader risks across the economy and the individual risks to individual firms. As I have said, we have spoken to many market participants and at length to the different legs of the tripartite arrangements, and we believe that that can best be done by putting the Bank of England in charge of the prudential supervision of banks, building societies and other significant institutions.

Surely we have now learned the hard way that we cannot take central banking out of bank regulation, and we cannot judge systemic risk without understanding institutional risk and vice versa. Of course the changes will require new, more collegiate arrangements for the Bank of England, but that, too, is a good thing. There is currently a rather unbalanced Bank of England that is collegiate on monetary policy and quite imperial on financial policy, of which the Chancellor no doubt bears the scars. We therefore propose a more collegiate approach. The whole point is to ensure that monetary policy, the supervision of financial stability and the regulation of individual institutions are better co-ordinated.

When we discussed these matters in TV studios and the like, the Chancellor used to say that no one in the world was proposing to do what we were. Of course, he does not say that any more-I shall come on to his current argument-because he knows that it is not the case. Across the world, countries are coming to the same conclusion that we did. I mentioned Stan Fischer, the governor of the Bank of Israel, and it is worth remembering his reason for what he said. He did not just say:

"It is very likely that prudential supervision will return to central banks when the lessons of this crisis are drawn."

He also said at Jackson Hole, at the conference of central bank governors:

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"Information flows are critical, and the plain fact is that information flows more readily within an organisation than between organisations-which is one of the reasons to have prudential supervision within the central bank."

That is a former chief economist of the World Bank and first deputy managing director of the International Monetary Fund, currently a central bank governor, and his view is shared by a whole host of other people. Another example is the current governor of the Bank of France, who said:

"Indeed, one of the main lessons of the crisis may be that those countries where central banks assume banking supervision took advantage of their ability to react quickly and flexibly to emergency situations."

I have already quoted what Jacques de Larosière has said explicitly about the Conservative proposals-that he supports them. The Bundesbank in Germany is now taking control of prudential regulation of banking, and the Belgian central bank is doing the same.

In the United States, the Federal Reserve is seeking to take control of the prudential regulation of important systemic institutions. The Chancellor often says that there are many regulators in the US, and of course there are powerful vested interests behind the Chicago regulator and the like. However, I remind him of what one of President Obama's chief economic advisers, Austan Goolsbee, said earlier this month-that separating banking supervision from central banking meant that a country would

"get into a 'left hand doesn't know what the right hand is doing' kind of problem in a crisis".

When asked to give an example, he cited the UK. That was one of the chief economic advisers of the President of the United States citing the UK as an example of a place where there had been a lot of co-ordination problems.

Mr. Robinson: I do not wish to labour the point too much, but the problem was not that the left hand did not know what the right hand was doing but that neither hand knew what was going on. That is not a problem of co-ordination or integration. I saw the right hon. Member for West Dorset (Mr. Letwin) nodding vigorously at the idea that information flows more easily within an organisation than between two organisations, but the logic of that is that we should merge the whole of government so that we could get information more freely. In reality, it simply is not true. There are some natural divisions where it is better to have the inevitable squabbles between organisations out in the open, so that we can all take a view on them. The Treasury should have access to two different sources: one handling monetary policy, a huge responsibility, and the other with the massive responsibility of prudential regulation. Bringing them together will not solve the problem.

Mr. Osborne: Do I believe that there is a perfect system of banking regulation? No, I do not. Do I think that all banking crises can be avoided in future? No, I do not. Do I think that we can abolish boom and bust? No, but I believe that we can create a more functional arrangement than there is at the moment. I am sure that the hon. Gentleman has seen that the current relationship is dysfunctional, and I have experienced that at first hand in my meetings with the three parts of the tripartite arrangement. If countries all over the world are learning the lesson that central banks have to be deeply involved in prudential supervision, we should learn it in the UK.

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Mr. Darling: I am listening to what the hon. Gentleman says about America and the various things that have been said there, but the fact is the American Government are not proposing to merge all their regulatory bodies, because they recognise that there are practical

difficulties. For everyone who says that the Fed ought to be more intimately involved in regulation, there are other people saying that it should not, and the American Government are simply not doing that. I do not understand his argument that simply by reversing the FSA into the Bank of England, all the problems that we have been talking about would not have happened. I just do not accept that.

I noted what the hon. Gentleman said about what Governors say, and as long as they are independent of Government, they will say what they want. I presume he is not proposing that, were he to get into power, the Governor of the day could not say what he thought.

Mr. Osborne: Of course the US is not creating a single regulator in the Federal Reserve, and as the Chancellor well knows, one of the major reasons for that is the enormous vested interests that stand behind the insurance regulator in New York, the derivatives regulator in Chicago and so on. The congressional obstacles to even attempting to come up with such a plan would be insurmountable. However, the US Government are proposing-and already facing quite a battle in Congress-to give the Federal Reserve prudential supervision powers over the largest and most systemically important banks. In the United States, of course, there are many thousands of banks, whereas in the United Kingdom there are many fewer than that. The US Administration have decided that the Federal Reserve needs to be involved in the prudential regulation of banks.

I have never claimed that our changes will solve all the problems, but they will at least remove the pretty substantial problem of a dysfunctional regulatory arrangement in which it is not clear that there is speedy co-ordination of action. There are huge institutional jealousies and, as the Chancellor has no doubt experienced at first hand, there are dysfunctional relationships.

We are trying to get this right, and we understand that the biggest challenge is the transition. We are therefore making a huge effort, and we have created a consultant board with people at a working level in the industry. I have the help of the former managing director for financial policy at the Treasury, who is directly helping me on devising the plan. I recently went to speak to the senior management of the FSA about it and, because of the constitutional arrangements, I am now in direct discussion with the Chancellor's officials about how to get it right.

I am very conscious that we need to get the transition right and, in the end, the decision that I faced was twofold. The first question was whether I believed the change had to be made, and I came to the view that it did. The second was whether I should then keep my decision secret, as the previous shadow Chancellor who became Chancellor did. I thought that, in the end, that was part of the problem that we are dealing with today.

There are some perfectly reasonable proposals in the Bill on the content of regulation. Having recovery and resolution plans, which are contained in clause 12, is a good idea. However, I spoke last week to the chairman

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of one of our largest banks, who has often made accurate observations about what is going on, and he made the point that the situation is already turning into a bureaucratic nightmare and that sight is being lost of what the living will concept should be about. There is a simple,

clearly understood plan for dealing with a collapse of that particular institution, but he thinks that it will become an enormous bureaucratic operation, which will lose its clarity.

We welcome the new powers in clause 13 to curtail market abuse and those in clause 14 to suspend and penalise individual market practitioners. I suspect that the issue is whether there is an appetite to use those powers. It is worth bearing in mind the observations of the former Director of Public Prosecutions, who said:

"Our system for regulating markets and for prosecuting market crime is completely broken. In Britain, no one has any confidence that fraud in the banks will be prosecuted as crime."

I emphasise that the former Director of Public Prosecutions said that.

We support the restriction on the provision of credit card cheques in clause 27, although I agree with the consumer group, Which?. It said last week that

"we are disappointed that the Government has not taken further measures against irresponsible lending in the Bill."

One of the institutional changes that we shall make is creating a consumer protection agency that will bring together the consumer-regulating powers of the Financial Services Authority and the consumer-credit powers of the Office for Fair Trading in a single body. That will be a powerful new agency.

The Chancellor briefed the press about the clauses on bonuses with enthusiasm. Perhaps he can assure us, as the Bill begins its passage-it is the first day of debate-that he is confident about the legality of clause 9. I cannot help noticing that the former Lord Chief Justice, Lord Woolf, has already started to ask questions about its legality. It would therefore be good-perhaps it could be done in Committee-to have some answers from the Government now rather than waiting for a year to pass, after which some court strikes down the provision. We need to address Lord Woolf's remarks and concerns.

On bonuses more generally, we made our proposals about the coming year end. I simply remind the House that the Prime Minister promised the country that the days of the big bonuses are over. We wait and see whether that particular Prime ministerial promise will be fulfilled in the coming months.

The Bill contains some perfectly reasonable clauses, but it does not address the central issues, which the Governor of the Bank of England asked it to tackle-first at the Mansion House, then in Edinburgh and last week at the Treasury Committee. He said that the Government's provisions in the two previous banking Bills and two White Papers amount to "little real reform". He challenges us all to address what he calls the

"too big to fail issue".

He is right to challenge us about that. My view is that some of the riskiest investment banking activities, such as large-scale proprietary trading, do not sit easily with retail deposit taking. However, I also take the unashamedly pragmatic view that any structural solution to the

problem should be enforced internationally. In the meantime, we should use capital rules to provide new safeguards.

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Ms Keeble: The hon. Gentleman refers to changes in the structures. There was always a financial stability power or function, though one could say that it was not used. There has been much discussion of the holy grail of the macro-prudential tool to go with the financial stability function. Has he identified such a tool, other than capital ratios? Who would operate it? That seems to be the missing bit, about which the Governor of the Bank of England has been talking.

Mr. Osborne: I happen to believe that the main tools are capital ratios, which operate as far as possible counter-cyclically-or at least not pro-cyclically, as they seem to do at the moment-and that the standards should be set internationally through Basel, the Financial Stability Board and so on. If that can be achieved internationally in the next few months, we should get on and do it. A bit of a risk is emerging-we are applying capital rules in a pro-cyclical way and risking a second credit crunch in the next few months. That deserves closer observation. The most useful thing that could emerge from the G20 process is some sort of international agreement on capital rules. We should want London, Edinburgh and so on to be homes of globally successful financial businesses. We want Britain to be the home of wholesale financial services in Europe, but we also want to protect the British taxpayer. The best way in which we can do that through macro-prudential tools and capital rules is by trying to achieve some international standards. I therefore agree with some of the public comments that the Chancellor made about what we want to achieve through the forums I mentioned.

However, there are some worrying developments. The Chancellor talked about some of the European proposals. It is not clear that the alternative investment fund managers directive as drafted is in the UK's national interest. It will drive the hedge fund industry-at least, significant parts of it-to Zurich. I think that the Government have finally woken up to that and are fighting a bit of a rearguard action. The Chancellor raised national sovereignty or the right of a national Government to have their say about whether there should be financial support, and I completely agree with him. However, the conclusions of ECOFIN do not seem to be replicated in the documents that have been produced. Those matters require the Government to be extremely active and aggressive in fighting for the UK's interests and trying to get an international or European playing field that is in this country's national interest. I think that the Treasury could present its arguments more aggressively.

Mr. Cash *rose-*

Mr. Osborne: Just before I give in- *[Laughter.]* That is an appropriate remark given that my hon. Friend wishes to intervene.

Mr. Cash: I am sure that my hon. Friend will not in any way give in on my point, but I hope that he will at least take serious account of it-I have raised it with him many times. It comes back to what I put to the Chancellor: in a situation in which majority voting prevails, if the architecture and the final decision-in other words, the control rather than who is in charge-turns on the European structure, does my hon. Friend agree that we must show today and in

our debate in a couple

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of days that we will not fall for the argument that we do better through the City of London being in the European architecture? Majority voting means that we will be consistently outvoted. That is where the power lies and I hope that my hon. Friend accepts that that is a serious matter, which needs to be considered.

Mr. Osborne: I agree that, having established the red lines, we need to make their existence clear in the directives and new institutional arrangements. I want the Chancellor to insist—because the issue may arise before the election—on his view that national Governments must have the final say, with the right of veto, over the decision to commit national taxpayers' resources to supporting a bank.

I must also note that allowing the French to take the Commission job on financial services, for which they were clearly bidding from the beginning and was doubtless part of the horse-trading that ended in some of the other Commission arrangements, may turn out to be a serious diplomatic mistake. One goes only on the briefings in newspapers, but as far as I understand it, the Prime Minister and Lord Mandelson were against the appointment, we were told that it would not happen and that the President of the Commission would split the jobs. Then, lo and behold, Monsieur Barnier emerges as the person in the Commission responsible for financial services. There is an understandable French objective to get some wholesale financial services to France and away from Britain. I am not sure that that is the UK's national interest. Perhaps one day, in the Chancellor's memoirs—the bits that are not in the Bill; let us hope that there are more interesting bits—he will explain exactly how it all came about.

Let me draw my remarks to a close with a final observation. Of course, the route to protecting the British taxpayer will never be some new banking Bill or a new European directive. What we need to deal with are the root causes of the credit crunch, and those are the huge macro-imbalances in our economy. We were not the only country in the world with those imbalances, but they were worse here than anywhere else. Lord Turner put well it in his report when he said that

"rapid credit expansion was underpinned by major and continued macro-imbalances, with the UK—like the US—running a large current account deficit".

The truth is our households were more indebted, our banks were more leveraged, our housing boom was greater and our Government budget deficit was larger than almost any other country in the world. The extraordinary thing is that the then Chancellor thought that this period was one of stability and an end to boom and bust. We are living with the consequences of that hubris today. It is why Britain is the last country in the G20 to still be in recession.

So this Financial Services Bill is tinkering at the edges. We need to end the dysfunctional tripartite regime; we need a new system of regulation that puts the Bank of England in charge; we need to address the issues that the Governor of the Bank has raised; and we need an international regime better to protect taxpayers while ensuring that Britain remains competitive. Above all, we need to move from an economy built on debt and highly dependent on the success of financial services to an economy built on savings that is home to successful financial services and to other successful industries.

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This Bill cannot do that, and nor can this Government. That is why we need a new Government and, eventually, a new Bill.

7.22 pm

Dr. Vincent Cable (Twickenham) (LD): The legislation before us today is substantial, unlike some of the other legislation listed in the Queen's Speech, and it deserves detailed attention. There is much in it with which I would agree, but we need to examine the question of whether it is all necessary, and what is omitted from it. I will probably devote more of my remarks to the latter part of the Chancellor's speech, in which he properly addressed consumer protection issues; although I agreed with much of what the hon. Member for Tatton (Mr. Osborne) said, I noted that in his 40-minute speech he did not refer once to the consumer issues, which are actually rather important.

The Chancellor started with the big picture, and I have several broad points to make about that. We now have relative stability in the banking system after its collapse and its rescue by the taxpayers. I do not wish to repeat the history lesson that we have already had, but if people wish to read my version of it, the paperback edition will appear in the new year. It is a long story and many people were to blame, as were the leverage, the excessive complexity, the failures of regulation and so on. Although the situation has stabilised as a result of Government intervention, there is still serious risk in the system, and we have been reminded in the last few days of the potential risks for some major banks that can arise from one operator-in this case, Dubai World-going bust. There could be others out there. If there is a double-dip recession in our own economy or elsewhere-that is possible, but I am not predicting it-it will produce another round of bad debts. There are almost certainly problems with the overvaluation of the UK housing market and other asset bubbles which will appear, in turn, in the bad debts within the banking system. Many of those problems are not only historical problems, but potential future problems.

Secondly, the big failure-as I have told the Chancellor many times-is not primarily a legislative issue but the reluctance of the Government to follow through on their ownership and control of leading banks in terms of influencing their lending policy. We had a good reminder of that last week when RBS, a nationalised bank, was able to mobilise hundreds of millions of pounds in support of an aggressive takeover of Cadbury by Kraft-as it happens, the world has moved on-while having to acknowledge publicly that it would not, by a very long way, meet its net lending obligations to small and medium companies. There has been a failure of governance by UKFI, the state directors-a failure to ensure that RBS and other state institutions meet the test of national interest. They are clearly not meeting that test.

The third general issue, which was touched on by the Chancellor and the shadow Chancellor, concerns the structural problems. I do not want to reopen the argument about whether the banks should be broken up or not-I will leave the Chancellor to debate that with the Governor of the Bank of England, who happens to share my views on that point. Several pragmatic steps are being taken, such as the living wills proposals, the build-up of revised capital adequacy rules, which take

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account of very large institutions that are too big to fail and too big to save, and trying to put over-the-counter transactions on to traded markets. All those things would reduce the risk of

a "too big to fail" collapse and they are all very sensible. However, most of them depend on international agreement, which could take years to happen and may well never happen.

Perhaps I could invite the Chancellor to say whether he agrees with an alternative proposal. He may not wish to break up the banks, but as long as they remain dependent on the taxpayer guarantee, would it not be right and sensible to ask them to pay for it? I think that that is what the Prime Minister was trying to suggest to the G20 meeting until he got fixated on a slightly more populist line on the Tobin tax. I think that he shares our view that the banks need to pay some kind of fee for this continuing guarantee, until the "too big to fail" problem has been resolved-however that happens.

On the specifics of the legislation, I turn first to the tripartite structure. It is worth quoting the Treasury Committee, which agreed on an all-party basis when it first looked into this problem. It said:

"Although we have concerns about the operation of the tripartite system, we do not believe that the financial system in the United Kingdom would be well served by a dismantling of the tripartite system. Instead, we wish to see it reformed with clearer leadership and stronger powers."

There are stronger powers in this Bill; the hon. Member for Tatton spoke on this point at length. I sense that there is confusion between two different issues here. One is the need for clear leadership-about which the hon. Gentleman is right-and, in relation to systemic stability, that leadership should be with the Bank of England. It is not clear that such leadership exists in the current council, because powers remain evenly distributed.

There is a difference between the issue of leadership and that of the structuring of the bureaucracy; that is the point that the hon. Member for Coventry, North-West (Mr. Robinson) raised earlier. I cannot believe that the hon. Member for Tatton can talk to people in the City-as he does a lot, and as I do-and not know that they are deeply uncomfortable with what he is proposing. I have met many deep-dyed Conservatives-who are smacking their lips at the prospect of an incoming Conservative Government cutting their taxes-who are horrified by the proposals to change the arrangements for the FSA and the Bank of England. They advance several arguments against those changes.

First, those people say that the proposals are causing enormous uncertainty. Staff at the FSA do not know whether they will have a job in six months or a year, they have taken their eye off the ball and are not concentrating on issues of regulation and supervision at a particularly delicate stage. I do not know where the hon. Gentleman has got the idea that the Governor of the Bank of England wants to be the supervisor of the Loughborough building society and many other institutions.

If the hon. Member for Tatton has ever had a meeting with the Governor, he must surely have realised that that is the last thing that he wants to do, and that it would be a complete distraction from his primary responsibilities. It would also lead to duplication. The moment that integrated teams of people started working on the insurance industry-not a controversial area at the moment-some of the people would be hived off to the Bank of England and the others would be hived off

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into another institution and, presumably, there would be two sets of insurance regulators instead of one. That is potentially very disruptive and confusing, and it is clear to me that people in the City do not want that reform.

I think that I am the only person in the House, with the possible exception of the right hon. Member for West Dorset (Mr. Letwin), who took part in the agonising process of legislating for the original Financial Services and Markets Bill back in 1999-2000. It was a terrible process, and I would hate to think that an incoming Government, if one were formed by the Conservatives, would inflict on us a similar piece of legislation. It is not necessary. There is one specific issue on which they are right, which is the need for clear unambiguous responsibility for systemic stability to be given to the Governor of the Bank of England. That needs to be there and it needs to be clear, but it does not require a vast moving around of the whole apparatus of the various quangos and all the people in them, which is completely unnecessary.

The second big issue in the Bill concerns remuneration. My question is whether such legislation is necessary. Some of the things suggested seem perfectly sensible, but do we need legislation to bring them about? As I understand it, the basic principles are set out in the FSA code of practice, which was quite a weak document, introducing guidance rather than principles and removing a lot of companies from its arrangements. I would simply ask the Chancellor whether it is possible to ensure that remuneration practices are tightened up by issuing a fresh code of conduct through the FSA or through secondary or devolved legislation. Why enact primary legislation to deal with the matter, given that the FSA already has considerable powers?

Why do the Government not use the direct powers that they already have, through the semi-nationalised industries? There was an embarrassing episode a few weeks ago when it was announced that the Royal Bank of Scotland would remunerate its highly paid staff in deferred stock, and that they would not be paid for three years. It then emerged—that is, RBS admitted—that the bank would pay its staff in cash next year, which means that there was a straightforward failure of direction by the Government's directors in the banks. We do not need legislation to sort out those problems.

The other issue under the heading of remuneration—the Chancellor indicated that he would deal with this through a separate order—is the implementation of the Walker review. It has to be said—I am sure that this is true even among his departmental colleagues—that there was incredible embarrassment, in the Government and elsewhere, at the whitewash that Sir David Walker has produced on disclosure. The idea that what he calls high-end staff who are highly paid should not be individually identified is a very strange one, because we already have explicit exposure in several cases.

All the pay, bonus payments and pension arrangements of directors of public companies are declared in an annual report. Even with unquoted companies, any director paid more than £200,000 a year has to be publicly declared. We have a situation, which the Government seem to have accepted, whereby if someone is paid £250,000 as, say, the finance director of a middle-sized metal-bashing company, all their details have to

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be publicly declared. However, if they are in a bank, not only do their individual details not

have to be declared, but their existence does not have to be acknowledged. That is an extraordinary state of affairs, given that banks are underwritten by the taxpayer.

Mr. Charles Walker (Broxbourne) (Con): Surely the difference is that there can be high earners in banks who do not hold any executive position, whereas the example to which the hon. Gentleman referred is of someone on the board of a private company.

Dr. Cable: That, indeed, is the point. Why should people who have highly paid positions in private banks, but who do not sit in either an executive or a non-executive role on a board, not be declared? Why should such disclosure be limited to directors alone, whether executive or non-executive? The principle of disclosure has already been accepted, and the kind of arguments that I have heard from some people in the investment banks-"We don't want to be identified because there's a security issue"-apply just as much to the directors of those other companies. Sir David Walker has produced an embarrassing mouse of a report that has clearly embarrassed the City Minister. I hope that when the Chancellor produces his revised direction-I am not sure what status that document has-he will take that fully into account.

Thirdly, it seemed to me that what the Chancellor said about short selling was right and appropriate, and that the changes to the legislation are exactly as they should be. We should not have a completely dogmatic, fundamentalist opposition to short selling. Short selling-dealing in stock that one does not own-may have a perfectly legitimate role in certain markets. However, there is a particular problem with banks, because banks' reserve capital-their regulatory capital-depends on share capital, which depends on the share price, and if the share price is manipulated as a result of short selling, that brings the taxpayer directly into the frame. That means that people are, in effect, gambling against the taxpayer, which is not right. It is also dangerous, and it is quite right that there should be strong regulatory powers to govern it.

Fourthly and finally, the consumer issues are important. Several of the consumer provisions in the Bill are sensible and helpful. There is the class action to avoid large numbers of people having to go to the Financial Ombudsman Service. The Chancellor cited the case of pension mis-selling, and I would guess that the same applies to payment protection insurance. There are many examples of how the procedure could be simplified, and it is good that there are to be stronger disciplinary powers for the FSA.

The idea of having a centre for financial education is also helpful, in bringing together the different strands of activity in financial education. It is not yet clear where the money will come from, whether the centre will be independent or what the governance structure will be, but no doubt that will emerge in Committee. It is also useful to have proposed action on credit card cheques, which have been the subject of some abuse in the past. I am not quite sure what future such cheques have, because my understanding is that banks will stop using and transacting cheques. Indeed, I am not sure whether such cheques will exist in future, so perhaps we need some clarification there.

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There have been some helpful submissions in the past few days from the citizens advice bureaux and the Consumers Association, listing a whole lot of other provisions. They make

the point that if the Bill is to be a round-up of useful consumer actions, why are those other things not being considered as well? There are about a dozen suggestions, but I will list only what seem to be the most important. First, there is the issue of contingent charges. Since the court ruling last week that legitimised what the banks have been doing in imposing what many regard as unfair charges on overdrafts and other things, is it not now necessary to straighten out the law? It would appear that the court ruling was based on a narrow point of law rather than an issue of principle. Should not this Bill be used to sort out that problem? There are hundreds of thousands of people, if not millions, who have lost money as a result of those unfair charges and who feel a strong grievance about it.

There is also the issue of set-offs. People are finding that if they put money into a deposit, that money is directly deducted from their outstanding loans. In effect, the banks are appointing themselves as preferred creditors, which is fundamentally wrong and unfair to the consumer. There are also issues such as unauthorised and unsolicited overdraft limits being raised unilaterally, without any consultation with consumers. Then there is the issue of the repossession of the properties of landlords-a matter in which the Government have been actively involved in the past. I had understood that the Bill would be a vehicle for strengthening legal protection for victims of repossession in such cases.

There is also the unilateral re-pricing of debt by many banks in respect of their outstanding loans, and the changing of minimum payments on credit charges at the discretion of the banks. There are many such practices, although I do not know-I am not a parliamentary draftsman-whether new laws are necessary to deal with them. What would be helpful-I make this as a practical suggestion-is if the Government could indicate which of the many proposals being made by the various consumer protection bodies are covered by the FSA, by the Office of Fair Trading or by both, which can be dealt with through secondary or devolved legislation, and which require primary legislation, so that we can understand how consumer protection in banking and finance can be brought up to date and up to scratch.

Mr. Cash: In the context of the various tiers and hierarchies of legal intervention that exist, the hon. Gentleman's pursuit of the simplicity that he set out at the beginning of his remarks, and his desire not to have too much duplication, would he concede that it would be far better if the matters to which he has referred did not end up being adjudicated in, for example, the European Court of Justice? The decisions to which he has referred would then all be adjudicated under a series of directives that would ultimately take control away from our courts and hand it over to the ECJ. Does he not see the inconsistency in his argument?

Dr. Cable: I do, but one of the problems is that what often happens if there is inadequate consumer protection in the UK and the Government do nothing about it, is that European parliamentarians then try to bring in new rules at European level, and try to deal with the

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problem by putting it in a single market context. I do not think that the consumer protection aspects are predominantly a European industry.

To summarise, there is much in the Bill that is perfectly sensible. However, I would question whether some of it is strictly necessary-and if the Government are to embark on a wholesale review of the current deficiencies in consumer protection in respect of banks, quite a few key items are missing.

7.40 pm

Mr. Geoffrey Robinson (Coventry, North-West) (Lab): In common with the shadow Chancellor, I would like to apologise for being unable to attend for the concluding speeches. It is a great pleasure, as always, to follow the hon. Member for Twickenham (Dr. Cable). I am pleased that he has given a general welcome to much in the Bill. Having read the Bill and on listening to today's speeches, it strikes me that a great deal will be left for the Committee stage, which is likely to involve debate over detailed complicated amendments-both wrecking and others-so I am bitterly disappointed that I have not been invited to sit on it.

[Interruption.] I am sure that those who do have that honour and pleasure will keep me well informed about the progress they are making. I look forward to hearing that some of the problems I foresee-on short selling and on other issues raised by the hon. Gentleman-are resolved at that stage.

It seemed to me that even the shadow Chancellor, if we put aside his polemics, was broadly in agreement with the provisions and measures-certainly the objectives-in the Bill. One point on which he rather doggedly nailed his colours, his prestige and his personal pride to the mast-Labour and Liberal Democrat Members do not understand his reason for doing so-was in respect of the merger, or indeed the subordination, of the Financial Services Authority and its functions to the Governor of the Bank of England, who clearly does not want that role; at least, he has not made that clear to me yet.

Mr. Andrew Smith (Oxford, East) (Lab): Does my hon. Friend agree that the shadow Chancellor was deeply unconvincing in putting forward his arguments? As I listened to him, I wondered whether he was not in a sense giving the game away. He used a double-edged political sword against us. He said that we were defending the existing arrangements because of the Prime Minister's role in their genesis, but it sounded to me as if he was attacking them precisely because of the Prime Minister's role. Is there anything in that?

Mr. Robinson: There is a great deal in that. Certainly in the early stages, when the shadow Chancellor first came up with his idea of getting rid of the FSA and spoke in hostile tones about it, he adopted a minatory posture towards all and sundry in the City and elsewhere. On that, I agree with my right hon. Friend. However, today he seemed to be emollient personified and there was nobody in the world more reasonable than the shadow Chancellor. He was bending over backwards to accommodate everybody; he was negotiating with everybody and consulting everybody; his offices were full of representatives from the City; the FSA was coming in and the insurance industries and bankers were coming in-and, of course, the Governor of the

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Bank of England had a special place there. The shadow Chancellor would have us believe that the whole financial world agrees with him, and he quoted one or two examples of people moving tentatively, although not fully, in that direction. The situation is anything but, of course.

Mr. Todd: Does my hon. Friend agree about another problematic element in the shadow Chancellor's speech? He referred to the sensible action by some of the people he spoke to, in their giving some kind words to his thoughts, in the possible prospect of the hon. Gentleman being in a position to deliver a package of change in the future. Those in the FSA in particular may well be considering carefully how to position themselves in relation to the

Opposition party and may at least be putting forward some words of insurance because of the circumstances that might develop next year, although my hon. Friend and I would join many others in wishing that that does not happen.

Mr. Robinson: I entirely agree with my hon. Friend. The one consoling factor is the fact that the shadow Chancellor will not have any prospect of implementing his proposals and causing the ructions that he clearly wants to. When he prays in aid people like Jacques de Larosière and Mr. Fisher, I wonder what supernatural financial wisdom he chooses to invest in them. I would have thought, and I put this to the Minister in his place on the Front Bench, that the House, the country and particularly the City of London should be much more concerned about another French person, namely Michel Barnier-I hope I have pronounced the name correctly and apologise if I have not. He seems to me to be a greater threat to our interests than anything from Jacques de Larosière, who was governor of the rather different French central bank in a rather different set of circumstances and with a different range of responsibilities.

I propose to look more closely to home and discuss the words of Andrew Large in commenting on the proposals. I do not want to say that he has any particular claim or any unique knowledge to be prayed in aid in any way, but he does speak with a great deal of authority, having been a former deputy governor for financial stability at the Bank of England. He wrote:

"So I am not convinced that to split the FSA and put supervision squarely into the Bank is wise or necessary, or that it would deliver a better result than the improvements under way"-

the improvements in the Bill that we debating now, which have been welcomed throughout the House. He continued:

"Changing architecture involves real risks and the burdens of migrating roles",

which I could not have put more succinctly myself. In a supplementary but relevant point, he goes on:

"Besides this, the consumer improvements suggested by the Conservatives do not require splitting the FSA in two."

That was one of the original responses. Here is a clear case for doing more on the consumer front by combining the two agencies that deal with consumer credit. That clear view comes from someone who knows the banking world pretty much inside out and where the precise responsibilities lie. He is saying that the suggestion is unnecessary and not worth the hassle, as it will create

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uncertainty and divisions, when what we need at the moment are clear responsibilities under-I very much agree with the hon. Member for Twickenham on this-the leadership of the Bank of England. That was very clearly agreed.

I can well imagine the late Eddie George-some of us risk taking his words in vain today-giving a different impression to different people than he gave to me on the several occasions

when the current and previous Chancellors and others were negotiating with him. At the end of that obviously difficult period, I remember him saying that we had come out with a very good role for the Bank of England, with a clear Monetary Policy Committee that was transparent and accountable. He made it plain on each occasion that he still retained the overall responsibility and the lead role for financial stability and for eliminating, in so far as one can, systemic risk.

That is where we were then and I believe that that is where we still are today. Clearly, we are not going to make any impression on the shadow Chancellor, even in the emollient, consultative frame of mind that he has developed on this matter. As I have said, we have one consolation—the extreme unlikelihood of his having the chance to implement what he is proposing.

Let me briefly deal with another important matter—the provisions for the class action for consumers. I remember the issue coming up many times with consumers when I was in the Treasury and many times since: it is simply impossible to take legal action as an individual at the moment. With the best will in the world, the financial ombudsman simply cannot cope with the problem. This is a very important new step. No doubt much of the Bill will be further clarified and amended, but I believe that that is one important change to our arrangements and we should not lose sight of it.

Christopher Fraser (South-West Norfolk) (Con): Does the hon. Gentleman agree that the Bill does too little too late to deal with the fundamental problems of financial regulation, that it does not deal with his point about consumers, and that it provides inadequate protection for those who have been affected by the financial crisis? Does he agree with that point?

Mr. Robinson: I do not, but I will say that the hon. Gentleman has a point, and that it can and, I am sure, will be addressed in Committee. I hope that he will find his just place on the Committee, and that, when he does so, he will ensure that it deals with the matter that he has raised. I can assure him, on the basis of long experience of Public Bill Committees, that such changes can still be introduced at that stage.

Let me return to the only issue on which I think there is currently any fundamental disagreement in the House. I refer to the idea, apparently endorsed by the right hon. Member for West Dorset (Mr. Letwin), that information flows much more easily within a single organisation than between two organisations. I will merely say that that is wishful thinking. If we followed the logic, we would conclude that the best way of eliminating the inevitable tensions and problems between the Chancellor and the Prime Minister would be to abolish one of the roles and make the Prime Minister First Lord of the Treasury, which, indeed, is his designation. That would—apparently, at least—get rid of all the arguments, but of course it would never work.

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We need those arguments. They tend to become public, and we need them to be available to the public. We certainly need them to be available to those who will make decisions based on the disputes and differences of opinion that are bound to arise. I have no doubt that exactly the same would apply to the relationship between the Governor of the Bank of England and

the chairman of the FSA, in whatever guise. The idea that amalgamating them in a single organisation would get rid of those tensions, arguments and discussions is pure wishful thinking. They will still exist, but rather than emerging into the public domain they will be suppressed, and we shall have the worst of all worlds.

Opposition Members, particularly the shadow Chancellor, should bear in mind that there will be many opportunities for compromise over the exact structure at the end of the day. The Opposition are obsessed with organograms and architecture, as parts of Government often become. Maintaining the FSA intact in terms of its organisation, its authority and its responsibilities would provide them with a simple line-based relationship: a dotted line to the Governor of the Bank of England, and a continuous, heavy black line to the Treasury. That is the sort of relationship that we want. It would emphasise the leadership role of the Governor, and it would avoid what will be a terrible mess when—fortunately in the very distant future, if ever—the Conservative party may have an opportunity to implement its proposals.

On that cautionary note, let me end by saying that I am grateful to have had the opportunity to speak.

7.53 pm

Stephen Hammond (Wimbledon) (Con): Given your erudition, Mr. Deputy Speaker, you will know that it was Gibbon who said:

"History is little more than the register of the crimes, follies and misfortunes of mankind."

That really describes what has happened in the financial and economic arena over the last three or four years, and the Bill that we are discussing is about history: the recent history of the financial crisis, and the way in which we, as a country, reacted to it.

When the global credit markets started to close, initiating the credit crunch that led to a crisis of confidence, it became clear that—in both domestic and international terms—there was no stability in either the regulatory arrangements established by the international community or in those established by the present Prime Minister, then Chancellor of the Exchequer. It can fairly be said that both international and domestic regulatory arrangements failed, but it is clear to us that the greater failure of the domestic arrangements had a greater impact on our economy. There is a huge interrelationship between the financial sector, which has been one of the key drivers of economic growth in our economy, and the financial crisis. We cannot claim that the two are independent of one another.

The origins of the financial crisis surely lie in the poor understanding of financial risk that was created by financial innovation, and the inability to enable both international and domestic regulation to cope with that innovation and reduce the risks in both institutional and systemic terms. The increase in the financial risk led to greater increases in Government debt, corporate leverage and personal borrowing, which in turn led not

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only to imbalances in our economic system but to the present crisis in our economy. There is a direct relationship between the crisis in the financial services industry and our economic

crisis. We need to understand that the implications of this Bill also involve severe and major implications for our economy.

In a few weeks' time the Government will present their pre-Budget report, and- as was made clear to all who read the newspapers at the weekend-they are determined to leave voters in no doubt that there will be tough choices for the United Kingdom. Yet again, there is talk but very little action. One of the inescapable conclusions must be that, if our economy is to recover, we shall need a thriving financial sector, and, given the crisis experienced by the financial markets, that will undoubtedly involve some changes in regulation. However, if the Government continue to do what they have always done-for which the Bill provides-they will see the results that they have seen before.

The questions for the House, and for the Committee, are these: what will the Bill do, is this reform necessary, and is it the right reform? The Government often accuse others of doing nothing while they do a great many things, but in this instance it is a matter of doing the right thing rather than doing just anything. We must ask ourselves whether the new regulatory system proposed by the Bill will be any more efficacious in dealing with a financial crisis-if there is one-than the previous system, or whether it will be less efficacious than the model set out by my hon. Friend the Member for Tatton (Mr. Osborne).

Members will recall what was said about the tripartite system by the Chairman of the Treasury Committee, the right hon. Member for West Dunbartonshire (John McFall). I saw him this morning, but he is in Europe this evening. He said that it was

"a Rolls Royce when it sits on the shelf, turns into an old banger when it gets on the ground."

The truth of that has been clearly shown by the operation of the system.

The Chancellor of the Exchequer and the hon. Member for Coventry, North-West (Mr. Robinson)-whom I am delighted to follow-made much of the architectural changes referred to by my hon. Friend the Member for Tatton. The Chancellor maintained that architectural changes were not particularly important. However, the first four clauses of the Bill are all about architectural change, to almost no effect. I think it somewhat disingenuous, given that those first four clauses seek to establish a council for financial stability, to claim that architectural change is not important.

The council will replace the existing top-level structure of regulation: the arrangements that embed the joint responsibility for financial stability shared by the FSA, the Treasury and the Bank of England. Those arrangements are governed by the memorandum of understanding referred to by my hon. Friend. The system is very complex. When challenged by the financial crisis, we can only reach the same conclusion as the Treasury Committee, which stated:

"We cannot accept... that the Tripartite System operated 'well'".

The Government's reaction to their failed tripartite system is to set up the Council for Financial Stability. That is an architectural change. However, the council will have the same three components and participants

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as its predecessor. It is difficult to see, at first analysis, how or why the new council will operate any differently. If we do exactly the same as we have always done, we see the same result. Is this just a rebranding exercise? According to the Treasury website, the detailed terms of reference are currently only available in draft. It is pretty difficult for us to be any clearer about exactly what changes will accrue.

Dr. John Pugh (Southport) (LD): I am a little unclear about what the hon. Gentleman is saying. He seems to be saying two completely different things. He seems to be saying that this is an architectural change of which he disapproves, but he also seems to be agreeing with the hon. Member for Tatton (Mr. Osborne) that it is a purely cosmetic change. It cannot be both, can it?

Stephen Hammond: Well, it is an architectural change, and the Chancellor tried to convince us that it was not particularly important, but- [*Interruption.*] If the hon. Gentleman listens to my speech, he will discover that I am arguing that it is a purely cosmetic architectural change, because the participants are the same, as is the predecessor organisation. Indeed, because none of the terms of reference has yet been set out, it is difficult to see whether any real change will result.

Christopher Fraser: I think my hon. Friend will agree that the more fundamental point is that the lack of co-ordination among the tripartite authorities contributed to the severity of the financial crisis, and nothing in the Bill addresses that.

Stephen Hammond: I entirely agree.

When the Chancellor talked about the CFS, he argued that the arrangements will increase both transparency and accountability, but any analysis of the Government's proposals reveals that potential to be fairly limited. It is not entirely clear how much transparency will be established by the Bill. Whereas under the tripartite system no minutes were published and there was no report to Parliament, the CFS will publish minutes but with a caveat that a significant proportion will not be suitable for publication. There may or may not be good arguments for not publishing the entire minutes of CFS discussions, but the Government cannot start claiming greater transparency on the one hand, and then take it away with the other. That is, at best, a significant failure.

The Bill establishes the council and gives to one of its participants a huge extension of powers. Given that it has been accepted that the tripartite system failed, why should one of the parties to that failure be given even more significant powers, especially when the Government argued that its existing powers were satisfactory? Can the Government reassure us that this new council is likely to be any more successful in ensuring prudential supervision and stability of the monetary system? Given the limited information the Government have currently laid out, it is difficult for any analysis to be able to conclude that. On that basis, my hon. Friend the Member for Tatton is right to ask the Government to explain why they have not considered abolishing the system and restoring the Bank of England's responsibility for maintaining financial stability.

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Mr. Andrew Smith: Instead of focusing on substance, the hon. Gentleman seems to be obsessed with architecture. Does he support the idea of giving the Financial Services Authority an enhanced power to intervene when contracts and incentives encourage irresponsible and destabilising behaviour? Is that not the sort of regulation we need to avoid a repetition of the recent crisis?

Stephen Hammond: I shall come on to a couple of items of substance in relation to clauses 12 and 13 that will address that very point, but Ministers cannot talk about architecture and certain things not happening given the contents of the first four clauses. They need to be clear about the following point. Given that the new CFS is to be established, are the extra powers to be given to the FSA either needed or likely to make the FSA more effective? It is not at all clear that they will make it so.

Clause 12 on recovery and resolution plans-also known as living wills-is broadly welcomed. The Banking Act 2009 sets out the special resolution regime that allows failing banks to be transferred either to a private sector purchaser, temporary public ownership or a bridge bank. The stressful situation addressed in the Bill is less dramatic than the criteria set out in the 2009 Act. However, there is no concise or lucid definition of that stressful situation, and that needs to be provided. The explanatory notes set out-helpfully or not-the recovery plan as one

"which aims to reduce the likelihood of failure".

What exactly needs to be specified in that recovery plan? What exactly must an "authorised person" do? Proposed new subsection 139B of the Financial Services and Markets Act 2000 lists a lot of intentions, but very little specifics. That lack of detail is likely to undermine the good intentions behind the resolution plans.

There is provision for both the Treasury and the Bank of England to notify the FSA if they wish to indicate that a plan is unsatisfactory and recommend action, yet the FSA does not have to undertake that action. I raised that point earlier in an intervention on the Chancellor, and I acknowledge his point to me, which was, "We're the Treasury so we're all-encompassing and all-powerful, and as we're standing behind this, the FSA will have to take account of it." If that is the Chancellor's intention, however, why does the Bill not state that? The fact that it does not and that the FSA can ignore the warnings about inadequate regimes reveals an inherent contradiction in the Bill.

Clause 12 gives rise to two further questions. How easy will it be for complex financial organisations to comply with resolution plans? The FSA has already said it expects there to be some clashes and that it would simplify structures when a living will appears to be unworkable. I hope that the Minister will be able to reassure us in his winding-up speech on the definition of unworkable in this context, and about exactly what powers the FSA will have-and will need to have-to implement the resolution plans. I am sure the Minister is aware that the group finance director of Barclays has already indicated that it has a very complex structure of international subsidiaries and branches. In practice, how will the FSA simplify that organisation to make a resolution plan work? I am sure the Minister has the answer to that.

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The Minister also knows that the G20 believes that there is a consensus emerging on the benefit of resolution plans. I do not think there is any dispute that they are a good idea, and the likelihood is that we will see some co-ordinated international actions on such plans in the very near future. Therefore, in what ways do the Government intend to take notice of that co-ordinated action proposed by the G20? Do they intend to leave this clause in place? Do they intend to say that it will become a sunset clause, so that anything proposal from the G20 can change it, or do they intend to ignore whatever the G20 might try to set out in the framework?

Clause 13 deals with short selling. As I am one of the Members who in a previous life worked in the financial markets, it is probably right that I resist the temptation to talk about any of the clauses on remuneration. There is an entirely erroneous myth that short selling is relatively new to financial markets, but prior to the change in the method of paying for bargains in the 1990s, the market had many operators who were known as account traders. These were exactly the same people as those who short sell nowadays; they bought stock they did not have the funds to pay for, and they sold stock they did not own. The 1990s marked the onset of hedge funds and the ability to "short", the use of derivatives, contracts for difference and so forth, and therefore short selling has become more widespread. However, do the Government accept the point of the Liberal spokesman, the hon. Member for Twickenham (Dr. Cable), which goes to the essence of this: the FSA already has powers to introduce emergency restrictions to prevent the creation, or increase of, net short positions? It also has powers to demand the daily disclosure of net short positions. Those powers were granted under section 118 of the Financial Services and Markets Act 2000. Therefore, this Bill is doing two things. It is extending the sunset clause on the powers to act on market abuse, but the power to act on short selling could be separated from the power to act on general market abuse. The Chancellor had some words to say on the Bill and the powers granted to the FSA on short selling. However, he will know that the British Bankers Association has said:

"The placement of generalised rules on short selling into MAR"-

market abuse rules-

"wrongly associates all forms of short selling with abuse."

I am certainly not the only person who has interpreted these provisions as placing, despite the separation, the short selling rules in the general market abuse rules.

There may or may not be a case for tighter regulation, but has not the FSA already got these powers? What extra powers are needed? Do the Government accept that short selling is not intrinsically a market abuse? Short selling enables financial firms to offer hedging and market-making facilities-indeed, it allows essential market liquidity. Making liquidity in both the London markets and the international markets means that markets function. We have seen that when markets seize up that has direct economic repercussions. Do the Government accept that short selling is a tool that is not intrinsically wrong or an abuse, but just a financial tool? What is wrong or abusive is how it is used in some circumstances.

Is what the Government are doing in this Bill merely an admission that the FSA has failed to use its existing powers? A lot of market participants take that view of the Bill and think that there is no need for a general

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extension of those powers. The FSA's statement of September 2008 was extensive and inclusive, and the necessary powers appear to be in place. The Minister must be clear tonight as to why these proposed powers are necessary. I am grateful to have had the opportunity to make a few brief remarks. Unlike the hon. Member for Coventry, North-West (Mr. Robinson), I am grateful that I will not be on the Committee, but it will explore a number of these issues.

8.12 pm

Mr. Mark Todd (South Derbyshire) (Lab): I do not know whether I shall be serving on the Committee for which some people are volunteering and on which others will be extremely disappointed not to be serving. It will consider a portmanteau Bill containing a wide range of issues relating to financial services. Thus, the hon. Member for Twickenham (Dr. Cable) reasonably said, "Well if it is such a bag, let's see what other elements might be stuffed into it." The Committee will almost certainly have before it a number of amendments suggesting the inclusion of a variety of measures, particularly on consumer protection, that might be useful.

May I run through some of the issues in which I have been particularly interested, the first of which relates to the Council for Financial Stability? I serve on the Treasury Committee and I subscribe to the opinions that it expressed: that this would appear to be a rebranding exercise, unless far greater detail is given about how this body will function. The Bill is silent on that—we will doubtless hear more in Committee. Those who miss that experience will miss out on the detailed exposition that might be given.

One of the difficulties that we face is that at the start of this crisis no institution explicitly had responsibility for financial stability, but now everyone has. The Financial Services Authority has been given it—or it will be given responsibility, should this Bill pass into law—and the Banking Act 2009 gave it to the Bank of England. I am not sure that that makes us feel much safer, partly because when everyone shares a responsibility, it is not entirely clear who is genuinely answerable for decision making—I shall discuss that later.

Secondly, I am not sure that we are very clear on what financial stability actually means. We know when it is absent—that is easy to work out; we have been through a period of obvious financial instability—but it is not entirely clear how we define "financial stability" and how we learn, institutionally, of the threats that there might be to it, which will not be identical to the ones through which we have been recently.

In any institutional framework—be it this tripartite system or the system that the hon. Member for Tatton (Mr. Osborne) proposed—the things that most concern me are how exactly it will work, and how information flows and how the allocation of the tools and responsibilities for dealing with crises are addressed. This is one of the areas where the Governor of the Bank of England has been perfectly fairly pressing the political class in this country to define its positions more clearly. If we are to allocate responsibilities for financial stability, the crucial element is to work out who does the various tasks. We are still searching for firm answers on that.

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One of the issues that concerns me most is information flow. If the FSA retains, as I believe it should, the regulatory responsibility for financial institutions in this country, the information gathered will be a crucial part of the Bank of England's carrying out of its financial stability responsibilities. I am not entirely clear that that information flow works correctly now; it is not built into law in the 2009 Act. I, like those who sat through that Committee stage, remember some discussion about whether it might be included in the legislative obligations attached to the FSA and passed through to the Bank of England.

My second area of concern relates to who exactly makes the decisions. There are trigger points during a crisis at which it is clear that one person provides information and another says, "This is what we are going to do." I am always uncomfortable about such a process. We still have some refinements to make on this.

The hon. Member for Tatton has departed to the event that will keep him away from the wind-ups, so I shall have to address the hon. Member for Fareham (Mr. Hoban) in the hope that he may pass this point on. The hon. Member for Tatton gave an exposition of the support that he appears to be getting, but some of that comes from those who, as I have said, are naturally looking to their own futures and wish to make positive remarks to what they see as a possible Government in waiting. If I were in such a role, I would not want to be dismissive or rude about proposals put to me by an Opposition who appear to be leading in the opinion polls. We have to understand human nature.

Christopher Fraser: I am listening carefully to the hon. Gentleman, but does he acknowledge that the lack of co-ordination among the tripartite authorities, as has been described, has contributed to the severity of the financial crisis through which we are going?

Mr. Todd: I do not think that that has contributed to the severity of the crisis; I think it did contribute to the slightly muddled handling of the crisis at its very beginning. The report that the Treasury Committee prepared on the initial stages of the banking crisis usefully highlighted some of the difficulties of communication both between the tripartite authorities and, perhaps equally importantly, outwards to the rest of us, as they acted. I do not think that there was a proper process of public exposition of what was going on to critical market makers and to the general public.

Christopher Fraser: Therefore, if we do not tackle the structural problems with regulatory reform, there will be more ambiguity about where responsibility lies. Does the hon. Gentleman agree with that?

Mr. Todd: On that, I would side with the hon. Member for Twickenham by saying that structures do not necessarily clarify responsibility or improve communication.

I am leaving this House at the next election, so I do not mind saying one or two things that I might not have said on another occasion. I went through the painful process of observing health service reform, as I suspect that we all did—certainly those of us who have been here since 1997—and the obsession with structural reform

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in the health service is an exact example of the atrophy that can be produced if that obsession is followed through. We end up freezing people's actions for a period; they worry about their careers and try to work out where they will be doing their jobs and how they will carry out their responsibilities instead of doing the things that we genuinely want them to do. The Government have not been guiltless of an obsession with structures. I advise the Opposition, should they have the opportunity to implement their plans, not to follow those obsessions.

Let me turn to other positive elements of the Bill. I will be very surprised if anyone pops up in this debate and says that living wills are an unwelcome proposal. There is an issue with quite how they will be implemented, but I would probably argue with the hon. Member for Tatton, were he here, and say that part of the exercise is to tighten corporate rigour over the understanding of the structures and risks. One of the difficulties that we have seen is the extraordinary engineering that sometimes goes into corporate structures in the financial sector, which is perhaps lost on some of the board, too. An attempt to force companies into at least applying rigorously an understanding of how their organisations fit together and therefore how they might be deconstructed at some stage in the future, should it come to that, is a helpful process that they should have to go through. Yes, it is tiresome and possibly bureaucratic, but it will possibly also expose areas of uselessness and pure engineering in an activity rather than areas of functional need. It is certainly useful for the regulator to understand that process, too.

That is only one element of addressing the issue of whether such institutions are too big to fail. I, too, take the view that capital and liquidity obligations are almost certainly the key element of dealing with the "too big to fail" argument. However, I do not rule out the approach that the Governor of the Bank of England has, I think espoused—if we do not force the break-up of these institutions, we should at least structure them in such a way that taxpayer risk is more confined. If one chooses a corporate model that includes a retail bank and an investment bank structure, we should at least have some means of limiting the taxpayer liability to the service element of the banking institution that we are supporting. Such a provision is worth considering and is not developed within the Bill.

When it comes to improving corporate governance, although it is certainly true that there has been regulatory failure—those who do not think that should look at the internal audit report that the FSA produced after Northern Rock—there has clearly been behavioural failure too, which is not the responsibility of regulators but is possibly to do with the nudges, to use the fashionable term, that we try to apply to prompt appropriate action among those who are carrying out functions in our society. I assume that the new powers on financial reporting, which I believe that the Treasury will be taking, will address the Walker recommendations on risk committees, giving them a separate reporting stream in corporate governance. Perhaps we will hear more about that in Committee.

Although the regulation of remuneration, which many have commented on already, is certainly popular, it has a rather muddled parentage. In considering this Bill, we should be concerned about whether high bonuses or pay should be subject to regulation only if they increase

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the risk of the institutions. That is how they should be considered; it is not for this House to consider in this Bill whether it is equitable to pay people staggering amounts for carrying out their tasks. There is a question about whether society should permit that and whether people

should be taxed more, but that is a separate issue that the House should certainly consider but in a different context.

Our decision making on that should be informed by, but not wholly governed by, competitive pressures. We are too easily persuaded by financial institutions saying, "If we do this, all these people will wander off and go to the United States, Switzerland or wherever else they think it might be advantageous to go"- [*Interruption.*] I am not saying that we should ignore it. We should be informed by it, but not necessarily governed by it. One point that we should be governed by, which is important and that again came up in the discussions on the Banking Bill, is the fact that we should not threaten the contractual nexus between an employer and an employee.

One element of this Bill, cited by the hon. Member for Tatton, touches on what the Government might intend if they outlawed certain pay and remuneration practices. Although I would not subscribe to the view that our problems have stemmed wholly from a failure of regulation, there are ways in which we can encourage rational and prudent behaviours and discourage the opposite. These include addressing remuneration models and strengthening risk governance and reporting. They should also cover strengthening the capability of non-executives and the robustness of the relationship between shareholders and the board.

One of the saddest elements of listening to the evidence given in the Treasury Committee has been listening to banks talking about their interaction with shareholders. Perhaps the most telling remarks were those made by representatives of HSBC, who related how they were strongly criticised by shareholder representatives for their conservative models of banking. Shareholders also totally ignored some of the evidence that lay before them of extraordinary risk: the ABN AMRO acquisition was endorsed by RBS's shareholders. It is worth thinking carefully about how shareholders can be better empowered and informed in making critical decisions about their interest in companies.

Let me turn to clause 6, which has not yet received any attention and which covers the education role of the FSA, establishing a new consumer finance education body. I strongly welcome the operational separation of the FSA from the education function and the broadening of the governance of that critical activity, which I take to be the implication of setting up the board. Presumably, the body will absorb all the FSA's function in consumer education, including the work carried out by PFEG-the Personal Finance Education Group-in schools. It is worth commenting on the FSA's view of how it carries out those functions now.

In an exchange between Lord Turner and me in the Treasury Committee last week, I pointed out that the FSA had certainly caught "targetitis". A huge scree of targets have been set for achievement in financial education, but if one glances through them to try to make sense of their qualitative elements-in other words: what difference are we making by doing what we are doing?-the report is almost entirely silent.

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Dr. Pugh: The hon. Gentleman may have noticed that the Chancellor of the Exchequer referred to the fact that such schemes were being trialled in the north-west. It would be interesting if he could tell us exactly what the quantifiable results of the trials were.

Mr. Todd: The hon. Gentleman raises an interesting point, on which I cannot enlighten him. I can say that if one glances through appendix 7 of the FSA's annual report, one finds an example of the way it reports targets. It was set a target of reaching 516,000 children in England with a learning money matters project and reported that it had exceeded the target by reaching 742,500 children. As far as I can tell, that figure seems to be the number of schools to which the FSA sent material multiplied by the number of pupils who were presumably in those schools, so one wonders whether the word "reach" is appropriately applied to such a limited and-from what I know about the distribution of the packs-doubtful link to a school institution. There is a lot more. I picked only the first two targets.

A lot of money is being spent on that objective and more is to come, so clear quality indicators are required, showing what difference has actually been made by providing those services. No one doubts that providing financial education for children and for consumers at large is very important, but what I have seen is of relatively limited quality. Quite often it is fancy stuff; as an MP, I should be proud to give it to constituents, but I wonder whether they would actually use it. I have repeatedly raised concerns about the issue, but have not been satisfied, so if the measure improves the governance of the programme, I shall be delighted.

Finally, I welcome the measures on facilitating collective proceedings by consumers. It is an important step. I note the concern of the banking industry and its opposition to the proposal, but I merely note it-they would say that, wouldn't they? We should obviously listen carefully to detailed representations, but we should press ahead on the principle. We are dealing with complex products and services, and without the aid of a representative body the ordinary consumer at large is often ill-placed to pursue a complaint against a financial institution. Giving consumer groups a clear role would leave far less to the chance that well-informed and resourceful consumers will sometimes win through in the end. I represent someone who has been fighting their way through energy issues-an almost equally complex area-and it is a delight to deal with someone who is really getting to grips with the detail. However, the experience has left me feeling that vast numbers of people do not have the time, expertise or will to go through such a process. That definitely applies to the financial market, so if collective action is to be the first step, I welcome it.

There is a lot to welcome in the Bill and I very much hope that we will be able to pass it before Parliament is dissolved.

8.33 pm

John Howell (Henley) (Con): I want to return to the subject of architecture. I looked in some detail at the *Official Report* of the Queen's Speech debate on the economy in the other place, and particularly at the remarks of Lord Myners. It was difficult to see where he was departing from the view that the financial architecture was important; indeed at one stage, with

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consummate cheek, he accused the Conservatives of not being good at seeing the big picture of financial architecture and economic challenge, so I wondered whether the Chancellor's comments earlier, when he tried to downgrade the importance of the architecture, expose something of a rift between him and the City Minister.

There is no better example of the Government's failure to see the big picture and the need to change the financial architecture than the Bill. It is a superb example of how the Government

have failed to see that the crisis has made the need for a big picture change more necessary than ever. They fail to realise that it is no longer the case that just a bit of restoration to a slightly damaged canvas is required-changing the artistic imagery slightly. Instead, we need a new canvas. Instead, what we get in the Bill is detailed draftsmanship and micro-management to hide the fact that the proposals introduce little substantive change to the overall regulatory architecture of the financial sector. That is largely concealed behind quite profound changes in consumer protection and consumer action, with many of which I, like the hon. Member for South Derbyshire (Mr. Todd), agree.

In summing up in the Queen's Speech debate in the House of Lords, Lord Myners said that the Bill would ensure that the financial system was

"rebuilt on a stronger...footing",-[*Official Report, House of Lords, 25 November 2009; Vol. 715, c. 464.*],

continuing the image of architecture that has pervaded the debate. That may be his aim, but it is difficult to see how this Bill rebuilds anything. He has presumably forgotten that architecture is relevant only if the building has strong foundations, and that merely slapping on a coat of paint and papering over the cracks does nothing.

Christopher Fraser: Does my hon. Friend agree that the way in which the Bill is structured leads to more ambiguity about where responsibility lies, and does not tackle the fundamental problems?

John Howell: I do indeed agree, and I thank my hon. Friend for his intervention. I will say something about that in a few moments.

The Bill does nothing fundamental about those issues, as is demonstrated by the fact that it has at its heart the preservation of the tripartite system, albeit that that system will be enhanced by more regulation. I was interested in the comment by the hon. Member for Coventry, North-West (Mr. Robinson), who is no longer in his seat, that there is risk in changing the financial architecture. I agree; indeed, there was a risk in changing the architecture to the tripartite system in the first place, and the results are now coming home to roost. The question is not whether there is risk involved, but how that risk is managed. That goes to the point that my hon. Friend the Member for Tatton (Mr. Osborne) made about how the new structure would look under a Conservative Administration.

As so often with this Government, there are only two tools in the toolbox. The first is the target culture, which is seen here in the role of the FSA, and is pursued elsewhere through the declaratory legislation of the Child Poverty Bill and the fiscal responsibility Bill, which will encourage special interest groups to drag the

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Government through the courts when targets are not met, until economic policy decisions will inevitably be taken by judges rather than Parliament.

The second tool in the box is regulation, of which the Bill before us promises much. As with so many other Bills that rely on regulation, however, we debate it in a vacuum and we do not get to see the regulations into which the substance of the Bill has been hived off-sometimes not even in Committee. I therefore ask the Government to outline the timetable for producing

the draft regulations associated with the Bill-particularly those on collective proceedings-and to ensure that they will be available to the Public Bill Committee, because I am volunteering to serve on it, given the fundamental nature of the Bill.

There is every indication that the Bill has been rushed through without as much thought as it deserved, notwithstanding the recent White Paper. Although there was consultation on the White Paper, I am struck by the number of organisations that have complained at the lack of consultation on the detailed proposals in the Bill. Clifford Chance makes that clear in an article in *Lexology* on 24 November, in which it says:

"There was relatively little consultation on the proposals...and there was a limited opportunity for interested parties to debate them."

Maggie Craig of the Association of British Insurers is quoted in an ABI press release as saying that she is

"alarmed this is being rushed through without proper consultation with industry. This is too important not to get right."

The lack of consultation is implicit in the comments from PricewaterhouseCoopers partner Jon Terry about the unintended consequences of the clauses about the power of the FSA for contracts, and about the distraction that those could cause when it comes to ensuring that risk is properly taken into account.

As other hon. Members have asked, why do we need a law to bring the Chancellor, the Governor of the Bank of England and the head of the FSA together, when there is a mechanism for doing that already? The answer was provided by a nameless Treasury spokesperson who was quoted in the "FT Adviser" website article. We now find out why the Bill is required. He is quoted as saying:

"We will be replacing the existing structure of the Tripartite arrangement where we meet strictly on an ad hoc basis and never publish any minutes of our meetings and never reporting to Parliament. Now they will be formalised and just like the Monetary Policy Committee they will have formal minutes."

Well, there we have it-the real purpose of the Bill and its real impact. The Bill is required because the Chancellor, the Governor of the Bank of England and the head of the FSA cannot keep minutes. The real title of the Bill should be "A Bill to make provision amending the Financial Services and Markets Act 2000 and for the installation of good practice in minute keeping by the principals in the tripartite system."

I am sure that we will all now feel much safer because of that-but things get worse. The Government's response to the House of Lords Economic Affairs Committee recommendation on the new tripartite system is that the new council will replace the existing memorandum of understanding. It clearly has no real Executive functions. As my hon. Friend the Member for Wimbledon (Stephen Hammond) said earlier, this is nothing more than a

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rebranding. It fails to address the serious concerns raised by many people, such as Professor Wood of the Cass business school, that

"the tripartite structure is fundamentally defective."

He continued:

"Everyone made mistakes...but it is quite clear that the actual structure of the regulatory system was not satisfactory before the crisis."

So I am left with four questions for Minister to answer on that part of the Bill. First, does he not accept that there was at best a lack of co-ordination between tripartite members, and does he really believe that the Bill will fix the problem? When meetings are so formal and the structure so inflexible, how will the system operate in a crisis? Any company that faces a new structure will at least have done some comprehensive modelling of what the new structure would be like, and those who take a proper risk approach will have done some modelling of how it would work in a crisis. Surely we should expect the same diligence to be undertaken by the Government in relation to what they propose in the Bill.

Secondly, does the Minister accept that the Bill will introduce more ambiguity about where institutional responsibility lies? My hon. Friend the Member for South-West Norfolk (Christopher Fraser) asked that question in his intervention. Thirdly, does he accept the advice from the House of Lords Economics Affairs Committee that

"for crisis management to be effective, it needs to be clear who is in charge",

and also accept that the Bill does not answer that question? If he is unwilling to listen to advice from the Opposition, is he willing to take on board the comments of the CBI, CMS Cameron McKenna and the Association of British Insurers about the remaining confusion of responsibilities that the Bill will create?

The CBI says:

"A disadvantage of giving the FSA an explicit objective for financial stability is that this would perpetuate some of the ambiguities regarding institutional responsibilities that were apparent in the build-up to the financial crisis."

Cameron McKenna says that this

"is old wine in a new skin-merely another way of expressing the existing Tripartite authority which has not delivered the stability that is needed."

ABI says:

"We are concerned that the proposal to give the FSA a financial stability objective will exacerbate the confusion of responsibility between the Bank and the FSA".

Finally, does the Minister accept that the new role for the FSA that the Bill proposes is a rebranding exercise, without any meaning without more fundamental change? How else are we to interpret the Government's response to the House of Lords Economic Affairs Committee recommendation at paragraph 115, about the need for executive responsibility? How else are we to interpret the Government's response that the Council for Financial

Stability will work essentially by reviewing publications about the problems that are happening? It does not sound as if a dynamic institution is being suggested. This is the time to give power for macro and micro-regulation and responsibility for financial stability to the Bank of England, so that we know that somebody competent is in charge.

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There are two other areas on which I would be grateful for the Minister's comments in his winding-up speech. It is clear that the need to ramp up consumer protection issues so much in the Bill is an indication of a failure to take consumer protection into account in the tripartite arrangements that were put in place by the Prime Minister. I welcome a focus on the need for consumer education. There are 9 million people in the UK in serious personal debt, and British consumers are twice as indebted as people in the rest of Europe. There is very little financial education around—so little that a MORI poll from 2004 showed that only 30 per cent. of people could work out a simple interest rate calculation.

It is not only people on the lowest incomes who are likely to enter into serious personal debt. High debt can push people on higher incomes into poverty, too. We know that there is a circular link between personal indebtedness and social problems, and that debt is a cause of social problems. Recently, the Save the Children campaign calculated that the present recession has caused 5.2 million households to be classed as sub-prime, and 25,000 consumer credit applications are turned down every day.

It surely defies credibility that financial education should come from the FSA, given its record in the present crisis. I tend to agree with the British Bankers Association that this should be dealt with elsewhere and should be more fundamental. That is why our proposals for a strong new consumer protection agency are so important, setting it out as a champion for consumers.

I remain concerned about the practical implications of the use of the courts proposed in the class action proposals. Given that the courts are likely to be snarled up by judicial reviews of Government economic policy, one wonders whether there will be any room for consumer cases to be heard at all. But this is a serious issue and many commentators have commented on the fact that the proposals will create a US-style litigation culture. It would therefore be good to hear from the Minister what work has been done to show that that culture in the US has benefited customers, and what lessons have been learned by the Government in framing the Bill and the regulations that will come with it.

This is an area that would have benefited from wider consultation, to ensure balance if nothing else. I would like to hear more about how the Government see the balance which will be required between the responsibilities and the rights of consumers.

I want to ask some questions of the Government about how the Bill will relate to emerging regulations from the EU and the direction of travel in relation to the G20. I listened with great care to what the Chancellor said at the beginning of the debate about the red lines and the connection with regulation. I am not yet convinced that any of us understands precisely how those red lines will work, or how the Government's stance in the Bill will be taken forward.

I have two issues in mind. As the Minister knows, the Commission issued a Green Paper on collective redress, setting out a number of options for settling large-scale consumer complaints. That was followed by a period of consultation earlier in the year, which produced conflicting results not only on whether collective redress was desirable, but on how it should be implemented. I understand that some leading European lawyers have questioned whether, under EU law, there is a clear legal basis for consumer

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collective redress. I am therefore keen to know to what extent the Government have taken into account the Green Paper and the underlying consultation, and whether their proposals conflict with European law.

In September the European Commission adopted proposals aimed at addressing regulatory weakness at micro and macro-prudential level through the creation of a European system of financial supervisors and a European systemic risk board. The Chancellor covered some of that, but I would still be grateful if the Minister who is to wind up could say what the relationship will be between what the Bill proposes and what the Commission proposes.

Looking more widely at the implications in terms of the G20, concerns have been expressed that the speed with which the Government are acting in the Bill, in advance of similar proposals from other countries, is a distinct competitive disadvantage. That has been expressed mostly in terms of the power to control remuneration contracts, but also in terms of creating living wills. The CBI has pointed out the need for the consistent action that other countries are taking if we are to avoid damaging the UK's competitiveness, and PricewaterhouseCoopers has commented on how the provision as drafted may catch others whom it was not originally intended to cover. Indeed, Lord Myners dismissed that with a rather populist phrase about curbing "reckless greed", but I hope that the Minister will treat the subject more seriously and tell us how the proposals go further than merely treating the symptoms of the disease, and get to the heart of the cure, which would involve a complex culture change in the appreciation of risk—a much broader and more complex subject.

The noble Lord dismissed concerns that the UK's unilateral action would be contrary to competitiveness, stating that it was

"setting the trend and direction of global thinking",

so will the Minister tell us the likely time lag between our leadership of global thinking and others catching up and putting the same proposals into operation?

All that is important because of clause 8, which imposes a duty

"to promote international...regulation and supervision".

It also includes a duty in terms of

"the desirability of maintaining the competitive position of the United Kingdom in respect of financial services and markets."

The Library research paper on the Bill points out very effectively that the FSA is already involved in the promotion of international regulation and supervision. The paper notes that

"around 70 per cent. of the FSA's policymaking effort is driven by European initiatives, including the Financial Services Action Plan".

It also discusses the way in which the FSA already participates in other international forums, including

"the Basel Committee, the International Organisation of Securities Commissions, and the International Association of Insurance Supervisors".

After reading clause 8, and after listening to what the Chancellor said about the relationship between the UK and the world in his opening speech, I am therefore left with an overriding question about what, additionally, the Bill delivers and what scope and tactics-strategy

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might be too big a word for it-the Government have in place to deal with international regulation and supervision as part of their overall approach to the supervision and regulation of the financial services industry in this country.

8.53 pm

Derek Twigg (Halton) (Lab): I welcome the Bill, which will give consumers more protection, an issue that I shall dwell on in my speech. The legislation will also empower the FSA and the Government to introduce tougher regulation of banks and their risky practices; better protect the taxpayer; importantly, restore consumers' confidence in financial services by providing people with greater protection and education; and, very importantly, provide powerful and easier routes to redress, when consumers have suffered widespread detriment.

Although we might be discussing how we will create better regulations to give the consumer more protection, we should not forget the impact of the banking and financial crisis on constituencies such as mine and the human cost, which is so often lost when we get to the detail of such Bills. Over the past year or two, unemployment has increased more rapidly in Halton than anywhere else in the north-west bar Knowsley. Recently, the unemployment rate has slowed, but it continues to affect many families and individuals in my constituency and elsewhere. People have found themselves unemployed for the first time. Indeed, one constituent told me that, until recently, he had not been unemployed in 38 years.

Many poor people have fallen into debt, something that we are discussing as part of the Bill, and many have had their houses repossessed. We should not forget the impact on businesses, particularly small businesses. All that, of course, was caused by the incompetence and greed of bankers and financial institutions.

On executive remuneration, my constituents have raised with me the issue of greedy bankers and bank bonuses. Of course, I am not talking about the ordinary bank workers in the offices of local branches but those who take the decisions and make the big salaries. It is hard to ignore the link between the risky activities of companies at a corporate level and an incentive structure that rewards such risk-taking at an individual level. Knowing what we know now, it seems remarkable that the financial institutions and those who had responsibility for managing them did not recognise and understand the risks they were taking on and were unable to prevent the consequences or to put in place plans to deal with them.

I am pleased that the Bill gives the FSA new powers on bankers' pay. Importantly, it also gives the FSA the power to rule that employment contracts not compliant with the code are void and unenforceable, and to make provision for the recovery of any payment made under a void provision. There must be more transparency on the disclosure of remuneration and pay bands. Irresponsible behaviour has to be changed. I welcome the increased supervisory and information-gathering powers and punitive measures.

The provisions on the disgraceful practice of sending out unsolicited credit card cheques to consumers are particularly welcome. There is no doubt that that can encourage people to take on more debt when many are

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already in financial crisis, and I am pleased that the Government will legislate to ban that practice. We have seen the usual bad practices with small-print conditions—for example, the interest rate applying to payments is not clearly stated in all cases, and it is sometimes not indicated that using credit card cheques to make payments means that cardholders do not have any redress against the credit card company. I welcome the intention to make it an offence for a credit card issuer to send credit cheques to a customer other than in response to a request from that customer.

Excessive bank charges have been the subject of ongoing discussion, particularly with the recent court ruling. That problem has to be dealt with, and I would prefer the Government to take more regulatory powers in order to do so. We should take action on unsolicited credit card limit increases that just appear through the letterbox. The practice of changing the interest on monthly credit card payments will particularly affect young people and get lots of them into debt.

I very much welcome the proposed establishment of the consumer financial education body and the **provision of guidance on money**. Several hon. Members have mentioned the importance of education on consumer credit and financial management. Consumer education and awareness is a key part of the Bill. Citizens Advice welcomes the establishment of the consumer financial education body, saying that it is a step change that will benefit consumers enormously. The work of citizens advice bureaux in delivering financial education has demonstrated the appetite and need for such training and the quantifiable improvement that it makes to people's confidence in dealing with their financial affairs. For example, according to Citizens Advice, 38 per cent. of clients who took part in the Save Xmas financial education sessions funded by the Office of Fair Trading said that they had since made changes to how they save.

From October 2008 to September 2009, citizens advice bureaux dealt with more than 2 million debt problems—an increase of 21 per cent. on the same period in 2007-08. I pay tribute to citizens advice bureaux, particularly the branch in my constituency, which does an excellent job, and with which I work very closely, in helping people in severe debt or other financial difficulties, which have been exacerbated by the economic downturn. I particularly commend its volunteer programme. I am pleased that the impact of debt on health is being further highlighted. That is why the primary care trust in Halton has been funding debt advice in addition to the money that the Government are putting in.

A few months ago, I met representatives from the **Resolution Foundation**, whose aim is to improve the well-being of low earners by delivering change for that income group, who are

currently disadvantaged. The foundation identified that low earners fall into an "advice gap" whereby commercial advisers focus their attention on the better-off, and the third sector and the Government focus on the most vulnerable. Its research found that a low earner in receipt of **money guidance** could be £60,000 better off by the age of 60 by making sound financial decisions throughout their life.

A poll conducted by the foundation in March 2009 found that nearly 3 million low earners worry all the time about their personal finances-double the number in a similar survey in 2007. The CFEB will increase the profile of **money advice**, the wider financial capability

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agenda and general financial education that so many people badly want to see. It will also be able to raise funding from a variety of streams, with no extra administrative burden on financial services.

Short selling has been mentioned. It has been an area of great concern at the outset of the crisis and since, and there is some discussion about how it should be regulated. I think it right that the FSA should have a power to place a restriction on short selling and require its disclosure. An independent power dealing with market abuse is very important, but I would like Ministers to provide further clarification, because points have been made about how such a power will be incorporated in the Bill and actually improve the situation. I continue to have serious concerns about short selling. I understand the benefits that it can bring, but we have seen far too much of the disadvantages of that practice, and I would like some more information on it.

Increased supervisory powers, information-gathering and punishment are key measures that I support, but I also welcome measures to enable consumers to obtain redress and compensation more easily in cases of widespread consumer detriment.

I want also briefly to mention banks and bank lending. I know that there is a view that some banks have improved, but I still get constituents and businesses coming to me to complain bitterly about the banking system and how it does not help small businesses, particularly regarding lending. I am not suggesting that we have to put such regulations in this Bill, but we should consider the issue.

I welcome the Bill's main proposals, but there are certainly other areas, particularly those affecting consumers, that we need to look at. I hope we can discuss them at a later date.

9.2 pm

Mr. Mark Field (Cities of London and Westminster) (Con): For some centuries past the City of London's greatest attraction has been its international reputation as a bastion of commercial certainty and reliability. English law is respected across the globe: countless contracts between parties from far away continents are often drawn up under its jurisdiction. In commercial affairs the City of London is rightly seen as a watchword for justice, neutrality and fairness. Too much, I fear, of what is proposed in this Financial Services Bill flies in the face of this fearless and hard-earned reputation. It threatens to do untold damage to the United Kingdom as a commercial and trading centre.

Even in the face of two world wars, the City of London regarded with the utmost seriousness its international contractual obligations—even to counterparties from those nations with which we were in conflict. We meddle with this proud history at our peril. I am therefore especially alarmed at the plans to give the Financial Services Authority the power, among others, to tear up future contracts that do not comply with its new arbitrary regulations on curbing remuneration and bonuses. The notion that the FSA might in such a way strike out legal contracts will cause grievous harm to the reputation of English law and the national sense of fair play. It also seems likely to fall foul of international—in particular, European Union—obligations on competition policy.

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Moreover, these draconian proposals are probably going to be impossible to implement in full. We will then be in the absolute worst of all worlds: putting on to the statute book legislation that gives a clear signal to international trading partners that Britain is no longer such a free or fair place to do business; but also concocting a set of regulations that are, for practical purposes, impossible to enforce.

As ever, there seems to be little consideration of the national interest in what the Government propose in this Bill. Instead, we see short-sighted, tactical positioning. At a time when my own party has made it clear that an incoming Conservative Administration would dismantle the Financial Services Authority, the Treasury now seeks to limit our future room for manoeuvre by empowering it even further.

The Bill also prompts the obvious question that I put to the Chancellor earlier. Given that the threat of closure hangs over the FSA, how on earth will it be able to recruit sufficiently talented new staff to take on its enhanced responsibilities? It is important that the authority and the Treasury properly think through all the practical implications of the Bill. Its unintended consequence will be that institutions are far less likely to wish to do business on these shores, which will be to our collective detriment in the years to come.

The Prime Minister's recent resurrection of the notion and desirability of a Tobin tax at the recent G20 Finance Ministers meeting is further cause for alarm. Promoted as a way of recouping more quickly the taxpayer cash put into banking bail-outs, which at least superficially seems a desirable enough goal, and of rebalancing the economy and helping the poor, as a surcharge on financial services it would in reality fulfil none of those objectives. Unless it were implemented in precisely the same way globally, it would be impossible to put into effect without disastrous consequences for both London and the UK. The United States has already signalled its clear opposition to such a levy, making it more likely that if it were to be applied on these shores, even in a diluted way, business would flee to countries free of the tax or simply engineer new financial instruments to get around it.

Dr. Pugh: The hon. Gentleman seems to object to the FSA being empowered to do something about future remuneration, bonuses and the like in the banking sector. Presumably his party argues that a future Chancellor of the Exchequer ought to have that power. Is he arguing against that as well?

Mr. Field: My objection was to existing contracts being torn up. It was the retrospection that I was objecting to. Ultimately, any regulatory authority should perhaps have quite significant and draconian powers along the lines envisaged elsewhere in the Bill, but my concern is about the longer-term influence of the changes on our stability and competitiveness.

The same principle applies to many other proposals in the Bill that would penalise the financial services in the UK. Unless it were imposed on a global scale, any initiative designed to curb bonus payments, for example, would simply drive from our shores the brightest and best in this important industry. I do not say that as a threat, because I strongly believe that no Government

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should be blackmailed by those in any industry into serving its particular interests above all others. However, I cannot help but conclude that in this Bill, the Government are simply grandstanding rather than introducing measures that will really be effective and minimise risk.

It is easier to focus on a single issue such as bonuses than to examine major failings elsewhere. Failings in risk modelling, credit ratings, macro-economic management and elements of regulatory oversight, as well as a number of other contributory factors, created the conditions in which excessive profits were made. As my hon. Friend the Member for Henley (John Howell) said, huge bonuses were the end product of a dysfunctional financial system, not the underlying cause of them.

Another suggestion is that far more of any remuneration package should be in long-term incentives rather than cash salary. Superficially that is an attractive proposition, but we should not forget that it had very little effect on the fate of either Lehman Brothers or Bear Stearns, two of the banks that have collapsed most spectacularly over the past two years. Both those organisations were famous for rewarding successful employees with large amounts of stock, which either by law or by internal practice proved unmarketable for a considerable period, yet that had little impact on the ultimate demise of both.

The City remains concerned that seeking short-term solutions on bonuses to quell public and media demands could bring down on the industry a raft of new regulations designed more to punish than anything else. It should also be remembered that high remuneration, be it in salary or in bonus, is not such an emotive issue outside Europe. We need to recognise that our regulation and tax policies have to take account of those prevailing in other countries that pose a competitive threat.

Let us not forget the importance of maintaining our focus on the issue that will dictate our economic health for years to come: the colossal sums of taxpayers' money and the immense Government guarantees that continue to underpin the entire financial system. The imperative to start repaying at the earliest opportunity cannot be overstated, yet commercial lending is unlikely to return to anything like normal until the second half of 2011 as toxic assets are gradually removed from banks' balance sheets. I therefore believe that the credit crunch will be with small and medium-sized businesses for some time to come.

To extend beyond £200 billion of quantitative easing puts our medium-term economic prospects at great risk. When can the Bank of England and the Treasury call time on their short-term fix? Amid the euphoria of a narrative that suggests that recovery is well within

sight, I fear that we are a considerable way from being out of the woods. The root causes of the global imbalances brought about by the west's financial calamity were the credit/debt bubble, along with the east's aggressive desire to build market share in global trade. China's policy of suppressing its currency to soak up the west's debt in the bond markets further helped hold down interest rates. Yet the resultant over-investment, excess capacity and vast structural debt in the west remains in place. The underlying causes of the credit crunch have not gone away.

Notwithstanding the ruinously expensive bail-outs and capital raising, the losses incurred by banks are probably still not even halfway recovered. Indeed, I fear

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that the Government's insurance of toxic assets has provided a dangerously false dawn. There is no incentive-or currently even a requirement-for banks to crystallise non-performing loans; they could not then ignore the losses on their balance sheet. Lloyds banking group, for example, with a huge property portfolio, courtesy of its ill-starred merger just over a year ago with HBOS, sits on an enormous pile of assets worth a fraction of their book value at their boom-time purchase.

The collapse in public confidence in financial institutions and their more esoteric products has met with a strong-armed, sometimes opportunistic political response. Put simply, we need to ensure that management in banks can summarise in simple terms the financial products they wish to sell. To that extent, I agree with the hon. Member for Halton (Derek Twigg)-if a derivatives product cannot be explained on two sides of A4, frankly it should not be marketed. Naturally an unworkably complicated regulatory framework risks seriously hitting the future viability and profitability of the entire industry.

Instead, the well-being of the institutions in the sector-not to mention its customers-depends on the development of a workable regulatory system, based on commercial principles, which will pass muster for decades to come. How else can we persuade those in their 20s to commence a lifetime of prudent saving as a prelude to a financially comfortable retirement? It all comes down to trust. That is an ingredient that no amount of regulation or consumer protection will rapidly restore.

Alongside the promotion of open competition and an end to the heresy that a bank might be too big or interconnected to fail, the best a Government can do is advance a culture of mutuality. We need to inculcate a sense of accountability between individual policyholders and a diverse range of financial institutions. For that reason, I support the potential for Northern Rock to revert to building society status once it has been stabilised financially. Promotion of as diverse as possible a financial services ecosystem should be a goal of future policy. Ethical values should come from individuals rather than resulting from a hostility which, inevitably, will be mounted against any all-powerful regulator. We should not expect too much from regulation. The buck must stop with all of us as consumers.

Regulation creates barriers to entry and promotes the large and bureaucratic over the small and innovative. A competitive free market can be promoted only by the re-establishment of less concentration among all institutions in the financial sphere. Ultimately, that means allowing companies-even huge players like Lehman Brothers-to fail. The interests of depositors and retail investors should be protected from such an eventuality, but not the

bondholders. Protection of the latter is one reason for the problem not going away any time soon.

A healthy, competitive and innovative capitalist system requires risk-taking, which is why shareholders and bondholders should not naturally expect such blanket protection. The trouble is that too much of the current debate on banking regulation, as shown by the Bill, focuses on how we should have stopped the last crash. That has not been helped by a Government whose recent economic policy pronouncements are governed less by the national interest and more by a scorched earth policy, designed to limit the room for manoeuvre for years to come of any incoming Government.

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We would do better to turn our attention to how best to create a future global financial system that will be trusted by today's children investing in the decades ahead in anticipation of a long, secure retirement income.

9.14 pm

Ms Sally Keeble (Northampton, North) (Lab): I welcome the chance to speak after the hon. Member for Cities of London and Westminster (Mr. Field) who obviously has the interests of the financial services sector at the heart of his constituency. In my constituency, we have part of Nationwide, and Barclaycard is next door, so I also have a strong financial services lobby. All of us of course also have constituents who are entirely dependent on the maintenance of a secure financial system, both for their own jobs and for financial services, such as pensions and mortgages. For that reason, although this Bill is phenomenally technical, it goes to the heart of what our constituents want to see happen, and that is why it is right that the Government should include it in their legislative programme.

The Government have to introduce the measures that they think right, and I agree with the separation of the Bank of England and the FSA, as set out in the Bill. The Government should not look to the pending election and ask "What are the policies of the Opposition?" and, depending on the answer, do nothing or do what they say. The Government should persist with the course of action that they think fit.

The origins of the debate, dating back to 1997, were mentioned at the outset. That was when the supervision of the banks was taken away from the Bank of England. It has been talked about as if that was the only thing that happened on that occasion, but it was not. The key factor was the Bank of England being given independence and control over the setting of interest rates. That was a phenomenally powerful tool to give the Bank, which had previously been jealously preserved by the Chancellor. It was a profound decision that affected all our constituents. Giving those powers to the Bank of England was a dramatic move and one that proved to be extremely successful. Control over interest rates was the key to controlling inflation, which at the time was the public financial enemy No. 1. It made perfect sense to transfer that power, and the FSA was then set up to deal with the regulatory issues.

Over the years, we have had debates about what was done, and questions were asked about the wisdom of some of the moves. I have been on the Treasury Committee for four years, so I

came in at the tail end of some of those debates. It was when things were starting to get a bit bumpy, because we had big debates about asset prices, especially property. Most of those debates, and the pressure put on the Governor, came from Members of Parliament, especially my hon. Friend the Member for Edmonton (Mr. Love). I did not tell him that I intended to mention him, but as I am flattering him, I hope that he will not mind. He repeatedly pressed that issue.

We also had a lot of discussion about the dislocation of the bank's rate from the interest rates as all of our constituents experienced them, especially over the past 18 months to two years. There were strong debates about the difference between the consumer prices index and the retail prices index, and why the public did not

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agree with the Governor's view of the rate of inflation. Many of those issues were a start in considering whether the system as set up in 1997 would hold for the next 10 or 20 years.

In fact, quite often over the past few years, the Select Committee almost got to the point of spotting what would lead to the collapse. When we looked at some financial products—we looked at collateralised debt obligations, or CDOs, but not CDOs squared—questions were asked about their construction, what they meant, what underpinned them, what their creditworthiness was, and so on. However, we did not push as hard as was perhaps needed to see what was happening. The Governor certainly never warned of exactly what was happening. I noticed that although the hon. Member for Tatton (Mr. Osborne) referred to asset prices, he did not read out any clear warning from the Governor— or, indeed, from anyone else—about the scale of the collapse that was coming down the line; and indeed, the FSA chair and chief exec at the time did not warn about it either.

When the collapse came, those of us on the Select Committee virtually had a ringside seat. The tripartite authority was caught out, albeit not because of anything inherent in its structure, but because of the speed and scale of the collapse. People could see the asset price bubbles and the complex financial products, although nobody quite knew what was in those products. Indeed, at one Committee meeting I remember people talking about how they would unwrap a layer to see what was under them, find that there was nothing at all and then pass them on as quickly as they could, before they ended up on their books.

Mr. Mark Field: Although I share the hon. Lady's view that the tripartite system in itself was not the main cause of everything collapsing, does she share the Opposition's concern that the Treasury turned a blind eye and did not warn anyone, in the way that probably none of us in politics did, because the money pouring in from the City was obviously attractive and because financial services brought huge income into the Treasury's coffers? The core question is: where did responsibility lie? However, when that question was asked of the Governor of the Bank of England, answer came there none.

Ms Keeble: I completely agree. There have been issues about what happened. The question that I was working towards is: how do we put it right? Everybody agrees that things went wrong, and everybody agrees that when the crisis came, the tripartite authority did not manage to resolve the issue in a very clever fashion. We heard all the accounts and all the evidence is there in the reports. The primary issue was not so much that the people involved were having a bust-up, but that the speed, scale and unexpectedness of the collapse caught everybody by surprise. In particular, as soon as the collapse hit the public and they started the

run on Northern Rock, a domino effect could have moved quickly through our financial services, had the Government not also moved quickly, which they did. They did so after the collapse of Lehman Brothers as well.

Given what happened, how do we put things right? I do not see that as a huge party political dividing line; I see it as a matter of trying to work out a sensible way

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to deal with what was a huge problem. However, just to say, "The relationships are dysfunctional; therefore we have to abolish or change everything," as the hon. Member for Tatton did, is not something that I buy into. That was the bottom line of his arguments, and I simply do not accept them. A number of issues have to be dealt with or thought through before we start talking about dismantling the FSA-or rather, not so much dismantling it, but tacking it wholesale on to the Bank of England.

First, there are serious conflicts of interest in having an organisation that uses the monetary policy tools that the Governor now has at his disposal, including quantitative easing, and that also supervises the banks. We could create Chinese walls and separations within the organisation, but given the importance of the subject and the order of the issues being dealt with, it is much better for those different functions to be more clearly separated.

The second thing-it has grown out of the crisis and we have all had to learn about it-is that the public are now much more demanding about scrutiny and transparency. The hon. Member for Twickenham talked about the banks' obligations on lending rates, which have not been restored to what they were. I do not think that the public are going to accept that one organisation, although it has responsibilities to report to different organisations, is likely to have the most wonderful culture of openness and scrutiny by the general public. I do not think that it will provide the kind of openness that the public will demand for the next 10 to 20 years.

I always remember the time when the Governor came before the Select Committee to talk about what was happening with Northern Rock. He spoke in terms of, "If only the Bank had been able to carry out a covert operation". I had visions of somebody with a big bag of cash running out of the Bank of England towards Northern Rock, and I wondered how on earth that could be done in the modern day and age. Just recently, of course, the Bank has managed to carry out such operations, which is quite remarkable. It is interesting that the debate then starts to be about where the public accountability, scrutiny and answering lies for what the Bank and others are doing with public funds. We need a structure that will allow us to answer those questions. Splitting the FSA into separate organisations will not help; it already has a culture of openness that will help it to provide better answers.

Placing all the functions into just the Bank creates the problem that it might become too big an organisation. We have all talked it being too big and too important to fail and all the rest of it, but having one body deciding quantitative easing, interest rates, the education of the public, bank supervision, old Uncle Tom Cobleigh and all involves too many functions for one organisation.

Most importantly-this explains my question to the hon. Member for Tatton, and both the Governor and the FSA said this-the issue is not just about who sits where but is about what they do. Although there has been much discussion about reorganising structures, we also

need to discuss the new tools that can be used to fix the current problems. It is much better to improve the structures we already have and focus on getting tools-other than the capital ratios that everybody has talked about a great deal-to try to tackle the problems we are going to face over the next 10 to 20 years.

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Apart from that, there some very important measures in this Bill, which go right to heart of the public debate. People have talked about bankers' pay, which is a major public concern. There is also a real awareness of the importance of the international regulations. I was pleased to hear my right hon. Friend the Chancellor speak about them in his opening address. I was particularly pleased to hear what he said about the credit ratings agencies-some of the real culprits in all this when they went on advising people about putting together hopelessly complex products and provided ratings for them. That then encouraged people to sell them when they were, in fact, houses of straw. I also greatly welcome the measures on consumer protection, particularly on the credit card cheques, in respect of which many hon. Members of all parties have campaigned for extra controls.

Nobody has mentioned clause 29, which I am particularly pleased to see in the Bill. It gives extra powers to the Financial Services Compensation Scheme. In all the disasters around financial services over the past couple of years, the Financial Services Compensation Scheme is just about the one organisation that has been extremely efficient and has managed to ensure with record speed that people have received the compensation owed to them. I am sure that the Financial Secretary will mention this in his concluding speech, but the clause would make it possible for the FSCS to ensure on an agency basis that all the customers of the Icelandic banks, for example, get paid out. That would mean that the money of overseas customers, or United Kingdom customers with accounts abroad, would be protected as well. I think that it would cover all internet banking as well, but perhaps my hon. Friend the Economic Secretary will clarify that point when he winds up the debate. In any event, it is a small but important measure.

I welcome the Bill, which I think will provide a way through a difficult situation and will help to put the regulation of our financial services on to a more secure footing in years to come.

9.30 pm

Mr. Mark Hoban (Fareham) (Con): We have had a thoughtful but rather low-key debate. That is surprising, given that the Bill is meant to be the central plank of the Government's strategy in the run-up to the next general election. There seemed to be no passionate desire among Labour Members to defend the existing structure of regulation in the United Kingdom, and they seemed to have no real confidence in their arguments. When Labour Members discuss the reforms that Conservative Members have proposed, there are no discussions about whether they are right or wrong in principle; we are merely told that they might be quite difficult to implement. That hardly suggests that Labour Members have confidence in the structure of which the Prime Minister himself was the author in 1997.

My hon. Friend the Member for Wimbledon (Stephen Hammond) spoke of the link between the financial crisis in this country and the economic crisis that we have experienced during

what has been the longest and deepest recession since the 1930s. That point was echoed by the hon. Member for Halton (Derek Twigg), who reflected on the experience of his constituents and on the link between the problems of businesses and households and the financial crisis.

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It is important to ensure that we produce the right response to the problems that we have seen over the last two or three years. Taxpayers have had to stump up billions of pounds in guarantees for the financial services sector. People have lost their houses, and businesses are under threat. We need to establish whether our current regulatory system has failed, and if it has failed—as we believe it has—we need to think about the right way in which to introduce reforms.

My hon. Friend the Member for Henley (John Howell) referred to the confusion that has arisen from the FSA's being given the objective of financial stability. Those of us who are veterans of the proceedings on the Bill that became the Banking Act 2009—such as the hon. Member for South Derbyshire (Mr. Todd), the Economic Secretary to the Treasury and the hon. Member for Northampton, North (Ms Keeble)—will recall our debate about financial stability. We discussed the problems involved in giving the Bank a responsibility for which there was no definition, and giving the Bank a responsibility without, necessarily, any additional powers to implement that objective. We also debated whether or not financial stability should be an objective for the FSA.

On that occasion, the hon. Member for Wallasey (Angela Eagle), then Exchequer Secretary, responded by saying:

"the FSA has important objectives in relation to financial stability and the Financial Services and Markets Act 2000, which has a direct bearing on what we are talking about. For example, the FSA has a responsibility for maintaining market confidence in the financial system. That, too, is about financial stability". --[*Official Report, Banking Public Bill Committee*, 30 October 2008; c. 232.]

It appears that last year the Government were very clear about the fact that the FSA had responsibility for financial stability. This year they appear to have changed their mind. I wonder whether that has just a little to do with the problem that affects the Bill. The Government are focusing on cosmetic changes, producing the illusion of activity and reform without making any substantial alterations.

My hon. Friend the Member for Cities of London and Westminster (Mr. Field) expressed concern about the contractual relationship between employer and employee. The hon. Member for South Derbyshire raised a similar issue last year during the debate on what was then the Banking Bill. My hon. Friend also spoke of imbalances between the economies in the far east with current account surpluses, the role that they had played in supplying funds to London and New York and acting as intermediaries in the financial services markets in those two centres, and how that had fed the growth in credits and led to the asset price bubble that has burst to the cost of families and businesses across the country. He also touched upon the need to understand complex financial products. I think we would all agree that regulators and

businesses failed to understand the nature of the risks in respect of these products, and the consequences of those risks when people were taking up products such as collateralised debt obligations, and CDOs-squared, on a large scale.

The hon. Member for Coventry, North-West (Mr. Robinson)-who made a late bid to serve on the Public Bill Committee, if the Government Whip is looking for a volunteer alongside the hon. Member for South Derbyshire-was critical of the appointment of Michel Barnier as the Commissioner responsible for

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internal markets, who has jurisdiction over financial services. We may well turn to this in more detail in the debate tomorrow on the Commission's proposals for reforming the architecture of financial supervision in the European Union.

The hon. Member for Coventry, North-West was right to be critical of that appointment. I sometimes get the sense in discussions on European financial services that the Treasury has let a matter rest for a long time and then rides in like the seventh cavalry, but ultimately fails to change things. We have had a flurry of activity over the past few days, with the Prime Minister and others trying to persuade President Barroso that Michel Barnier should not be appointed as commissioner. All came to nought, however, because the Treasury and the Government did not wake up to the risks until it was too late. I fear that we will see the consequences of that inactivity over the course of the life of the Commission.

The hon. Member for South Derbyshire spoke about employment rights, and he referred to the Bill as a portmanteau Bill. That is an apt description, as it highlights the fact that it is a hotch-potch collection of provisions that lacks a coherent theme. It does not really address the financial crisis, or some of the consumer credit issues that a number of Members have discussed during the debate. He asked, rather cynically, "Well, what do the people who argue in favour of your Conservative reforms want?" I am not entirely sure what Jacques de Larosière, Austan Goolsbee or Stanley Fischer want from a Conservative Government, and I do not know what is in our gift to give them. However, the fact that they recognise that there needs to be significant reform of financial regulation, and that more powers need to be given to central banks over the regulation of the financial services sector, demonstrate that our proposed reforms go with the grain of international debate.

The hon. Member for Halton (Derek Twigg) talked about the impact of the financial crisis on the economy and on families and businesses in his area. That reminds us of the need to get the regulatory system right in order to minimise the risk of such crises arising again. He also referred to the indefensible practice of credit card cheques. Whenever I talk to people from the credit card sector, I always listen with fascination to their defence of these cheques, but there is no credible defence, and they should be scrapped.

The hon. Member for Northampton, North was the only Member on the Government-party Benches to offer even a slight defence of the existing regulatory regime. She gave an account of the discussions the Treasury Committee had with the Bank of England and others about complex products and the credit bubble. Part of the problem was that no one really had responsibility for financial stability or for working out what the impact of these risks would be on the financial system and the wider economy. That points to the gap in the system of financial regulation, which the Prime Minister established in the late '90s. No one had that responsibility, and sadly, the Bill does not address that fundamental problem.

There are no significant measures in the Bill that demonstrate that the Government have learned the lessons from having seen the first run on a UK bank in

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living memory. There appears to be nothing in the Bill that would prevent that from happening again. Secondly, our economy as a whole has been massively over-leveraged because nobody took responsibility for macro-prudential regulation and the maintenance of financial stability. It now appears that the Bank and the FSA share that responsibility without there being any clarity as to what that means, and what they will do in practice. It is all still to take place within the framework of the tripartite arrangements set up in the late 1990s. We know from the criticism of those arrangements how badly they have worked. We still do not know who, in the final analysis, has responsibility for financial stability: is it the Bank, the FSA-or, indeed, the Chancellor of the Exchequer? We have gone from a situation where nobody had responsibility to one where everyone has responsibility, but neither is a satisfactory outcome.

It is not just banks that were over-leveraged; consumers were, too. Our consumers were more highly leveraged than those in America, and personal debt in the UK is equal to that in France and Germany combined. Where are the measures in the Bill to address that? As I said, we welcome the measures to ban unsolicited credit card cheques, but we have long called for the Government to go further in tackling some of the issues relating to consumer credit and rebuilding the savings culture in this country.

This financial crisis has wreaked devastation on consumers, families and businesses. We have seen the mis-selling of structured products, falling interest rates for savers and pensioners, and an increasingly concentrated banking sector. Again, nothing in this Bill gets to the root of why regulation is failing consumers. We welcome the measures in the Bill on collective redress and class actions, but it says something about the weakness of the regulatory structure that we have to find mechanisms for consumers to hold product providers to account. Where is the FSA or the Financial Ombudsman Service failing, if we need to give consumers those powers? We need to examine some of the fundamental failures in consumer regulation if we are to get this right.

The Bill fails to address the weaknesses in the regulatory structure and demonstrates the Government's failure to undertake the fundamental reform of financial regulation that we so desperately need. It is a long list of measures that are, in part, cosmetic; it is a restatement of what is already happening, rather than reform to address the structural failures entrenched in the reforms of 1997.

A number of Conservative Members have asked whether the Bill is about cosmetic change or about change to the architecture, and whether it is substantial or merely a rebranding. Parts of the Bill remind me of one of those TV makeover shows: people come in and there is a blaze of activity for a short time-new paint is put on the walls and a few new lampshades and carpets are put in-yet the reality is that we still have the leaky roof, the rocky foundations and the dodgy walls. They remain unchanged as the makeover team moves off, leaving the real problems behind for someone else to sort out.

What the people of this country need is real change, not some tacky makeover from a Government running out of steam, caught out by their own failings but lacking the courage to own up to their mistakes and scrap the system that they set up. The Bill does contain

measures that we will support, but they need more

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scrutiny, because they are being railroaded through the House by a Government afraid of robust scrutiny of the new powers being taken by the FSA.

These welcome measures should not obscure the fact that the Government could have used this Bill to achieve fundamental reform of the regulation of the financial services sector. It could have been used to establish clear lines of responsibility for maintaining financial stability and it could have dealt with the fundamental structural weaknesses in the system that the Prime Minister set up in 1997, but instead it has entrenched the problems of the past, ducking the questions about who should be in charge and avoiding real reforms that would have given real protection to consumers.

We require wholesale structural and institutional reforms with a fresh approach to regulation and supervision. The Conservatives have put forward detailed proposals that learn the right lessons from this financial crisis and would put us on a sustainable footing going forward. Instead of defending the tripartite structure, as the Government are forced to do, we would scrap the FSA and give the Bank of England enhanced powers over prudential regulation, thereby leaving nobody in doubt as to who is in charge. Instead of having a single organisation trying to tackle financial stability and protect consumers, we would create a consumer protection agency to act as a consumer champion.

What a shame that the Government will not admit their mistakes, will not own up to their failings, and instead blame everyone but themselves. It is clear that while this Government are in charge, we will not get the real reforms that this country needs; all we will see are cosmetic changes saving the face of the Prime Minister—the architect of the system that has so badly let down households and businesses across this country. It is becoming increasingly clear that the Government are incapable of learning and incapable of implementing the change that this country needs. Only a general election can bring about real and substantial reforms to the architecture of financial regulation to ensure that we give better protection to consumers, learn the lessons of the excesses of the past decade and put this country back on the right track.

9.45 pm

The Economic Secretary to the Treasury (Ian Pearson): The global financial crisis has led countries across the world fundamentally to review financial systems and their interaction with the broader economy. Last year and earlier this year, we ensured that the UK authorities had the power to deal with failing banks while continuing to protect consumers and taxpayers. Our economy needs well-managed, well-functioning banks and financial institutions to perform a vital set of functions, channelling investment and helping people to save and plan for the future.

Although a prosperous financial sector is in everyone's interests, so too is a stable one. Through this Bill, we have an opportunity to strengthen the financial framework so that the UK not only addresses the effects of the crisis but harnesses the lessons of the past two years, ensuring that in future any crises will not only be less damaging but less likely altogether. The Government's aim is simple: to ensure that the financial system that emerges from the

crisis is not only built on a stronger and sounder footing but is fairer and works for consumers.

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The tone of the comments made by the hon. Member for Fareham (Mr. Hoban) stood in stark contrast with those of the shadow Chancellor. I got the impression that the shadow Chancellor had thought deeply about this and that he disagreed with us on one fundamental issue to do with the structure of regulation, but agreed with large elements of the Bill. He said so. He said that recovery and resolution plans were a good idea and he supported lots of other elements of the Bill. However, I did not hear a shred of evidence to support the idea that the fundamental wholesale reform suggested by the hon. Member for Fareham would produce any benefits for consumers and investors.

It is clear that when it comes to structure there is a fundamental disagreement between the Government and the Opposition. The Opposition have made their views on the institutional framework clear, but their suggestion that if we had handed the FSA lock, stock and barrel back to the Bank of England we would have prevented the financial crisis, or would prevent a future one, is simply misguided. Putting together responsibility for regulating not just the big banks but the small ones—the smallest building societies, individual financial advisers and the smallest credit unions—does not make strategic sense. Many different institutions and frameworks exist in different countries across the world, but no model of financial regulation has been successful in fully insulating any country from the crisis.

The shadow Chancellor and the hon. Member for Fareham cited a number of people who support their view. We can do the same. The simple fact is that there is no perfect supervisory architecture. My hon. Friend the Member for Coventry, North-West (Mr. Robinson) quoted Andrew Large, who knows a lot about these matters. The solution, to my mind, is not to rearrange the responsibilities of those with a role to play in preserving financial stability, but to ensure that all responsible parties have the right tools at their disposal to maintain financial stability and that the right framework exists to ensure effective co-ordination of the authorities' activities.

We should not be talking, as the Opposition are, about shifting the deckchairs. We should be talking about strengthening the deckchairs so that they can carry the weight that we all now realise is required of them. It matters not who does the job, but that the job is done effectively and the institutional framework is clear and coherent.

At this critical time, we need the authorities to focus on reducing risk, not on having to deal with the disruption and uncertainty caused by unnecessary institutional upheaval. The hon. Member for Twickenham (Dr. Cable) made a valid point when he warned of the dangers that significant institutional upheaval could bring. Instead, by introducing the Council for Financial Stability, we propose a change from the existing standing committee arrangements. The council will be responsible for considering emerging risks to financial stability and co-ordinating an appropriate response by the UK's authorities. Most important, it will place financial stability arrangements on a more formal, transparent and accountable basis.

A second crucial element of the Bill relates to recovery and resolution plans, or living wills.

Mr. Oliver Letwin (West Dorset) (Con): Will the hon. Gentleman give way?

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Ian Pearson: I would happily give way to a Member who has sat through the debate, rather than one who turned up two minutes ago. I should like to reply to the comments that a number of hon. Members have made.

Recovery and resolution plans will help to ensure that no bank is too complex, too interconnected or too big to fail, thereby going a long way towards addressing the moral hazard problem that is particularly prevalent among systemically significant firms. The plans are key to ensuring that such firms can no longer rely on an implied public subsidy. In response to the hon. Member for Wimbledon (Stephen Hammond) who, among others, raised the issue: yes, it is an ambitious programme of work. We are talking about complex financial institutions, but our proposals are not unworkable and we need to make sure we get the detail right.

The recovery and resolution plans are only one element of the Government's comprehensive policy to deal with the systemic risk posed by firms. The policy includes tougher prudential regulation.

Stephen Hammond: Will the Minister give way?

Ian Pearson: I happily give way to the hon. Gentleman.

Stephen Hammond: The Minister cited my contribution to the debate, but he glossed over my point. He said that he wants to make the plans workable but he has given no detail. A number of problems have been raised to show the risk that the proposals may be made completely inoperable by the complex nature of companies' financial structures, but he has yet again glossed over that point.

Ian Pearson: I shall be happy to go into detail with the hon. Gentleman in Committee. The shadow Chancellor said that recovery and resolution plans were a good idea. As hon. Members know, on Second Reading we debate the principle of the measure, and the principle of the plans has been welcomed on both sides of the House.

The third crucial element of the Bill is remuneration. The Bill relates to improved corporate governance, which goes hand in hand with a strengthened regulatory framework. There is general consensus that remuneration practices in the financial services sector were a contributory factor in the recent financial crisis. That is why we are taking decisive action to tackle remuneration practices that incentivise excessive risk taking.

There are proposals in the Bill to enhance control of the system of rewards on one hand and transparency of disclosure on the other. We are strengthening the FSA's hand as a regulator to take action against remuneration policies that encourage excessive risk taking, and ensuring greater accountability of the FSA to the Government in that area. The hon. Member for Twickenham asked whether we actually needed such legislation and suggested that the FSA could already take action. No, it cannot. We are imposing a duty on the FSA to make rules requiring some authorised persons to have a remuneration policy and to implement it, and to

ensure that remuneration policies are consistent with the effective management of risk and the Financial Stability Board international implementation standards as agreed by the G20 leaders at Pittsburgh. It is fundamentally important that we do so.

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The shadow Chancellor and others asked about the power that we have proposed in that area and about concerns expressed by Lord Woolf. The power that we are proposing is not a power to interfere with existing contracts—the FSA is not being given retrospective powers. As a public authority, its actions are required to be compatible with the rights in the European convention on human rights, which are protected by the Human Rights Act 1998.

In addition to what we are doing to strengthen the FSA's hand, we are, where appropriate, taking action to implement in full Sir David Walker's recommendations on disclosure and transparency. The hon. Member for Cities of London and Westminster (Mr. Field) raised points about remuneration, and, happily, I am sure that we will discuss them further in Committee. Through our proposals on disclosure, we are trying to support shareholders' ability to exercise effective oversight of the remuneration paid in the companies in which they invest. As my right hon. Friend the Chancellor said, the first line of defence is well-managed companies, with directors taking responsible decisions about risk, effectively overseen by active shareholders. Through the Bill, the Government will have a power to make regulations to implement the Walker recommendations, which will naturally be subject to full consultation.

The fourth crucial element of the Bill is the measures designed to support and protect consumers. My hon. Friends the Members for Halton (Derek Twigg), for South Derbyshire (Mr. Todd) and for Northampton, North (Ms Keeble) made specific reference to the consumer financial education body and the powers on collective redress. Hon. Friends who serve on the Select Committee that deals with the issue made broader comments, which we will happily debate in Committee. It is important that the FSA can establish a new consumer financial education body to provide strategic leadership and increase the profile of the financial education and capability agenda. It is also important to recognise that the recession has had the greatest impact on those who are most vulnerable in our society. We are committed to improving access to **financial guidance** and education to address these issues.
[Interruption.]

Mr. Deputy Speaker (Sir Alan Haselhurst): Order. I am sorry to interrupt the Minister. There is a rising tide of sedentary conversation, which is now starting to obtrude.

Ian Pearson: As my right hon. Friend the Chancellor announced, we also propose to introduce a representative body to bring action through the courts on behalf of groups of consumers. There have been representations from bodies that have concerns about what is being proposed. The proposals have been extensively consulted on. They are appropriate, and it is right that individuals have the power to band together to take class actions in the courts through a representative body. That power has limitations, which we have consulted on, and those are appropriate.

The Bill will ensure that prudential regulation and supervision of firms are more effective. It will place greater emphasis on monitoring and managing system-wide risks, including by legislating for the new Council for Financial Stability. It will ensure that banking remuneration is more appropriate and, above all, more transparent.

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At the same time, it will ensure that consumers of financial products are better supported and protected. I commend the Bill to the House.

Question put and agreed to.

Bill accordingly read a Second Time.

Financial Services Bill (Programme)

Motion made, and Question put forthwith (Standing Order No. 83A (7)),

That the following provisions shall apply to the Financial Services Bill:

Committal

1. The Bill shall be committed to a Public Bill Committee.

Proceedings in Public Bill Committee

2. Proceedings in the Public Bill Committee shall (so far as not previously concluded) be brought to a conclusion on Thursday 14 January 2010.

3. The Public Bill Committee shall have leave to sit twice on the first day on which it meets.

Consideration and Third Reading

4. Proceedings on consideration shall (so far as not previously concluded) be brought to a conclusion one hour before the moment of interruption on the day on which those proceedings are commenced.

5. Proceedings on Third Reading shall (so far as not previously concluded) be brought to a conclusion at the moment of interruption on that day.

6. Standing Order No. 83B (Programming committees) shall not apply to proceedings on consideration and Third Reading.

Other proceedings

7. Any other proceedings on the Bill (including any proceedings on consideration of Lords Amendments or on any further messages from the Lords) may be programmed.-(*Mr. Mudie.*)

The House divided: Ayes 276, Noes 152.

Division No. 5]

[9.59 pm

AYES

Abbott, Ms Diane
Ainsworth, rh Mr. Bob
Allen, Mr. Graham
Anderson, Mr. David
Atkins, Charlotte
Austin, Mr. Ian
Bailey, Mr. Adrian
Bain, Mr. William
Baird, Vera
Balls, rh Ed
Banks, Gordon
Barlow, Ms Celia
Barron, rh Mr. Kevin
Battle, rh John
Bayley, Hugh
Beckett, rh Margaret
Begg, Miss Anne
Bell, Sir Stuart
Benn, rh Hilary
Benton, Mr. Joe
Betts, Mr. Clive
Blackman, Liz
Blackman-Woods, Dr. Roberta
Blunkett, rh Mr. David
Borrow, Mr. David S.
Bradshaw, rh Mr. Ben
Brennan, Kevin
Brown, Lyn
Brown, rh Mr. Nicholas
Brown, Mr. Russell
Browne, rh Des
Bryant, Chris
Buck, Ms Karen
Burden, Richard
Burnham, rh Andy
Butler, Ms Dawn
Byrne, rh Mr. Liam
Caborn, rh Mr. Richard
Campbell, Mr. Alan

Campbell, Mr. Ronnie
Caton, Mr. Martin
Cawsey, Mr. Ian
Challen, Colin
Chapman, Ben
Clapham, Mr. Michael
Clark, Ms Katy
Clark, Paul
Clarke, rh Mr. Charles
Clarke, rh Mr. Tom
Clelland, Mr. David
Clwyd, rh Ann
Coaker, Mr. Vernon
Coffey, Ann
Cohen, Harry
Cooper, rh Yvette
Corbyn, Jeremy
Crausby, Mr. David
Creagh, Mary

Cruddas, Jon
Cummings, John
Cunningham, Mr. Jim
Cunningham, Tony
Darling, rh Mr. Alistair
David, Mr. Wayne
Davidson, Mr. Ian
Davies, Mr. Dai
Dean, Mrs. Janet
Denham, rh Mr. John
Dhanda, Mr. Parmjit
Dismore, Mr. Andrew
Dobson, rh Frank
Donohoe, Mr. Brian H.
Doran, Mr. Frank
Drew, Mr. David
Eagle, Angela
Eagle, Maria
Efford, Clive
Ellman, Mrs. Louise
Engel, Natascha
Farrelly, Paul
Field, rh Mr. Frank
Fisher, Mark
Fitzpatrick, Jim
Flello, Mr. Robert
Flint, rh Caroline
Follett, Barbara
Foster, Mr. Michael (*Worcester*)

Foster, Michael Jabez (*Hastings and Rye*)
Francis, Dr. Hywel
Gapes, Mike
Gardiner, Barry
George, rh Mr. Bruce
Gilroy, Linda
Godsiff, Mr. Roger
Goodman, Helen
Griffith, Nia
Griffiths, Nigel
Grogan, Mr. John
Gwynne, Andrew
Hain, rh Mr. Peter
Hall, Mr. Mike
Hall, Patrick
Hamilton, Mr. David
Hamilton, Mr. Fabian
Hanson, rh Mr. David
Harman, rh Ms Harriet
Harris, Mr. Tom
Havard, Mr. Dai
Healey, rh John
Hendrick, Mr. Mark
Hepburn, Mr. Stephen
Heppell, Mr. John
Hesford, Stephen
Hewitt, rh Ms Patricia
Heyes, David
Hill, rh Keith
Hodge, rh Margaret
Hodgson, Mrs. Sharon
Hoey, Kate
Hoon, rh Mr. Geoffrey
Hope, Phil
Howarth, rh Mr. George
Howells, rh Dr. Kim
Hoyle, Mr. Lindsay
Humble, Mrs. Joan
Hutton, rh Mr. John
Iddon, Dr. Brian
Illsley, Mr. Eric
Ingram, rh Mr. Adam
Irranca-Davies, Huw
Jackson, Glenda
James, Mrs. Siân C.
Jenkins, Mr. Brian
Johnson, Ms Diana R.
Jones, Helen
Jones, Mr. Kevan

Jones, Mr. Martyn
Jowell, rh Tessa
Joyce, Mr. Eric
Kaufman, rh Sir Gerald
Keeble, Ms Sally
Keen, Alan
Keen, Ann
Kemp, Mr. Fraser
Kennedy, rh Jane
Khan, rh Mr. Sadiq
Kidney, Mr. David
Kilfoyle, Mr. Peter
Knight, rh Jim
Kumar, Dr. Ashok
Ladyman, Dr. Stephen
Lammy, rh Mr. David
Laxton, Mr. Bob
Lepper, David
Levitt, Tom
Lewis, Mr. Ivan
Linton, Martin
Lloyd, Tony
Lucas, Ian
Mackinlay, Andrew
Mactaggart, Fiona
Malik, Mr. Shahid
Mallaber, Judy
Mann, John
Marris, Rob
Marsden, Mr. Gordon
Marshall-Andrews, Mr. Robert
Martlew, Mr. Eric
McAvoy, rh Mr. Thomas
McCabe, Steve
McCarthy, Kerry
McCarthy-Fry, Sarah
McCartney, rh Mr. Ian
McDonagh, Siobhain
McFadden, rh Mr. Pat
McGovern, Mr. Jim
McIsaac, Shona
McKechin, Ann
McKenna, Rosemary
McNulty, rh Mr. Tony
Meacher, rh Mr. Michael
Michael, rh Alun
Miliband, rh David
Miliband, rh Edward
Miller, Andrew

Mitchell, Mr. Austin
Moffatt, Laura
Moon, Mrs. Madeleine
Morden, Jessica
Morley, rh Mr. Elliot
Mudie, Mr. George
Mullin, Mr. Chris
Munn, Meg
Murphy, Mr. Denis
Murphy, rh Mr. Paul
Naysmith, Dr. Doug

Norris, Dan
O'Brien, rh Mr. Mike
Olnier, Mr. Bill
Osborne, Sandra
Owen, Albert
Palmer, Dr. Nick
Pearson, Ian
Plaskitt, Mr. James
Pope, Mr. Greg
Pound, Stephen
Prentice, Bridget
Prentice, Mr. Gordon
Primarolo, rh Dawn
Prosser, Gwyn
Purchase, Mr. Ken
Purnell, rh James
Raynsford, rh Mr. Nick
Reed, Mr. Andy
Reed, Mr. Jamie
Reid, rh John
Riordan, Mrs. Linda
Robertson, John
Robinson, Mr. Geoffrey
Rooney, Mr. Terry
Roy, Mr. Frank
Roy, Lindsay
Ruane, Chris
Ruddock, Joan
Russell, Christine
Ryan, rh Joan
Seabeck, Alison
Sharma, Mr. Virendra
Shaw, Jonathan
Sheerman, Mr. Barry
Sheridan, Jim
Simon, Mr. Siôn
Simpson, Alan

Skinner, Mr. Dennis
Slaughter, Mr. Andy
Smith, rh Mr. Andrew
Smith, Ms Angela C. (*Sheffield, Hillsborough*)
Smith, Geraldine
Smith, rh Jacqui
Snelgrove, Anne
Soulsby, Sir Peter
Southworth, Helen
Spellar, rh Mr. John
Starkey, Dr. Phyllis
Stewart, Ian
Stringer, Graham
Stuart, Ms Gisela
Sutcliffe, Mr. Gerry
Tami, Mark
Taylor, Ms Dari
Taylor, David
Thornberry, Emily
Timms, rh Mr. Stephen
Tipping, Paddy
Todd, Mr. Mark
Touhig, rh Mr. Don
Trickett, Jon
Turner, Dr. Desmond
Turner, Mr. Neil
Twigg, Derek
Ussher, Kitty
Vaz, rh Keith
Walley, Joan
Waltho, Lynda
Watts, Mr. Dave
Whitehead, Dr. Alan
Wicks, rh Malcolm
Williams, rh Mr. Alan
Wills, rh Mr. Michael
Wilson, Phil
Winnick, Mr. David
Woolas, Mr. Phil
Wright, Mr. Anthony
Wright, Mr. Iain
Wright, Dr. Tony
Wyatt, Derek
Tellers for the Ayes:

Mr. Bob Blizzard and
David Wright
NOES

Afriyie, Adam
Ainsworth, Mr. Peter
Amess, Mr. David
Arbuthnot, rh Mr. James
Bacon, Mr. Richard
Baldry, Tony
Bellingham, Mr. Henry
Beresford, Sir Paul
Binley, Mr. Brian
Blunt, Mr. Crispin
Bone, Mr. Peter
Bottomley, Peter
Brady, Mr. Graham
Brooke, Annette
Browning, Angela
Burns, Mr. Simon
Burrowes, Mr. David
Burt, Alistair
Butterfill, Sir John
Cable, Dr. Vincent
Carswell, Mr. Douglas
Cash, Mr. William
Clark, Greg
Clarke, rh Mr. Kenneth
Conway, Derek
Cox, Mr. Geoffrey
Crabb, Mr. Stephen
Davies, David T.C. (*Monmouth*)
Davies, Philip
Djanogly, Mr. Jonathan
Dorrell, rh Mr. Stephen
Duddridge, James
Ellwood, Mr. Tobias
Evans, Mr. Nigel
Evennett, Mr. David
Fabricant, Michael
Field, Mr. Mark
Francois, Mr. Mark
Fraser, Christopher
Garnier, Mr. Edward
Gauke, Mr. David
Gibb, Mr. Nick
Gillan, Mrs. Cheryl
Goodwill, Mr. Robert
Gove, Michael
Gray, Mr. James
Green, Damian
Greening, Justine

Hammond, Stephen
Harvey, Nick
Hayes, Mr. John

Hemming, John
Hendry, Charles
Hoban, Mr. Mark
Hogg, rh Mr. Douglas
Hollobone, Mr. Philip
Horam, Mr. John
Hosie, Stewart
Howarth, Mr. Gerald
Howell, John
Hurd, Mr. Nick
Jack, rh Mr. Michael
Jackson, Mr. Stewart
Jenkin, Mr. Bernard
Jones, Mr. David
Kawczynski, Daniel
Keetch, Mr. Paul
Kirkbride, Miss Julie
Knight, rh Mr. Greg
Lait, Mrs. Jacqui
Lamb, Norman
Lancaster, Mr. Mark
Lansley, Mr. Andrew
Leech, Mr. John
Leigh, Mr. Edward
Letwin, rh Mr. Oliver
Lewis, Dr. Julian
Liddell-Grainger, Mr. Ian
Lidington, Mr. David
Lilley, rh Mr. Peter
Loughton, Tim
Luff, Peter
Mackay, rh Mr. Andrew
MacNeil, Mr. Angus
Main, Anne
Maples, Mr. John
Mason, John
Mates, rh Mr. Michael
Maude, rh Mr. Francis
May, rh Mrs. Theresa
McIntosh, Miss Anne
McLoughlin, rh Mr. Patrick
Mercer, Patrick
Miller, Mrs. Maria
Milton, Anne
Moore, Mr. Michael

Moss, Mr. Malcolm
Mundell, David
Murrison, Dr. Andrew
Neill, Robert
Paice, Mr. James
Paterson, Mr. Owen
Pelling, Mr. Andrew
Penning, Mike
Penrose, John
Prisk, Mr. Mark
Pritchard, Mark
Randall, Mr. John
Redwood, rh Mr. John
Robathan, Mr. Andrew
Robertson, Hugh
Robertson, Mr. Laurence
Rogerson, Dan
Rosindell, Andrew
Ruffley, Mr. David
Russell, Bob
Sanders, Mr. Adrian
Selous, Andrew
Shapps, Grant
Simmonds, Mark
Simpson, Mr. Keith
Smith, Chloe
Spicer, Sir Michael
Spink, Bob
Spring, Mr. Richard
Stanley, rh Sir John
Streeter, Mr. Gary
Stuart, Mr. Graham
Stunell, Andrew
Swayne, Mr. Desmond
Syms, Mr. Robert
Thurso, John
Timpson, Mr. Edward
Tredinnick, David
Turner, Mr. Andrew
Vaizey, Mr. Edward
Vara, Mr. Shailesh
Villiers, Mrs. Theresa
Wallace, Mr. Ben
Waterson, Mr. Nigel
Watkinson, Angela
Weir, Mr. Mike
Whittingdale, Mr. John
Widdecombe, rh Miss Ann
Wiggin, Bill

Willetts, Mr. David
Williams, Hywel
Winterton, Ann
Winterton, Sir Nicholas
Wishart, Pete
Wright, Jeremy
Young, rh Sir George
Tellers for the Noes:

Mr. Philip Dunne and
Mr. John Baron
Question accordingly agreed to.
30 Nov 2009 : Column 938

30 Nov 2009 : Column 939

30 Nov 2009 : Column 940

Financial Services Bill (Money)

Queen's recommendation signified.

Motion made, and Question put forthwith (Standing Order No. 52 (1)(a)),

That, for the purposes of any Act resulting from the Financial Services Bill, it is expedient to authorise the payment out of money provided by Parliament of any expenditure incurred in consequence of the Act by a Minister of the Crown. -(*Mr. Frank Roy.*)

Question agreed to.

30 Nov 2009 : Column 941

Financial Services Bill (Ways and Means)

Motion made, and Question put forthwith (Standing Order No. 52 (1)(a)),

That, for the purposes of any Act resulting from the Financial Services Bill, it is expedient to authorise-

(1) the imposition of charges for the purpose of meeting expenses incurred by-

(a) the consumer financial education body to be established by the Financial Services Authority,

or

(b) the scheme manager of the Financial Services Compensation Scheme, and

(2) the charging of fees in connection with the application of Part 5 of the Banking Act 2009 to persons providing services forming part of inter-bank payment systems. -
(*Mr. Frank Roy.*)

Question agreed to.

Business without Debate

Estimates

Motion made and Question put forthwith (Standing Order No. 145),

That this House agrees with the Report [25 November] of the Liaison Committee. -
(*Mr. Frank Roy.*)

Question agreed to.