



House of Commons  
Treasury Committee

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# **The Treasury Committee's scrutiny of appointments**

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**Eighth Report of Session 2015–16**





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*Report, together with formal minutes  
relating to the report*

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## Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

### Current membership

[Rt Hon Mr Andrew Tyrie MP](#) (*Conservative, Chichester*) (Chair)

[Mr Steve Baker MP](#) (*Conservative, Wycombe*)

[Mark Garnier MP](#) (*Conservative, Wyre Forest*)

[Helen Goodman MP](#) (*Labour, Bishop Auckland*)

[Stephen Hammond MP](#) (*Conservative, Wimbledon*)

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[John Mann MP](#) (*Labour, Bassetlaw*)

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[Mr Jacob Rees-Mogg MP](#) (*Conservative, North East Somerset*)

[Rachel Reeves MP](#) (*Labour, Leeds West*)

[Wes Streeting MP](#) (*Labour, Ilford North*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/treascom](http://www.parliament.uk/treascom) and by The Stationery Office by Order of the House.

### Committee staff

The current staff of the Committee are James Rhys (Committee Clerk), Chloe Challender (Second Clerk), Gavin Thompson (Senior Economist), James Mirza Davies (Committee Specialist), Shane Pathmanathan (Senior Committee Assistant), Amy Vistuer (Committee Assistant), Elektra Garvie-Adams (Committee Support Assistant), Toby Coaker (on secondment from the NAO), David Hook (on secondment from HMRC), and George Barnes (on secondment from the Bank of England).

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# 1 Appointments scrutinised by the Treasury Committee

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1. The Treasury Committee currently scrutinises the following appointments:

On a pre-commencement basis

- The Governor, Deputy Governors and other Members of the Monetary Policy Committee and Members of the Financial Policy Committee (including externals)
- The Chair of the Court of the Bank of England
- The Chair of the Financial Conduct Authority
- The Chair of the Office of Tax Simplification
- The Tax Director of the Office of Tax Simplification
- The Chair of the Financial Conduct Authority's Regulatory Decisions Committee

On a pre-appointment basis

- Chair and members of the Budget Responsibility Committee

2. The list above reflects the long history of the Treasury Committee in scrutinising appointments. An Institute for Government report on the role of Parliament in appointments noted that following the introduction of a role for the Chair of the Public Accounts Committee in the appointment of the Comptroller and Auditor General in the 1983 National Audit Act:

The next major development came in 1997, when the Treasury Select Committee (TSC) announced its intention to hold “confirmation hearings... to establish whether those nominated to the new Monetary Policy Committee (MPC) of the Bank of England fulfilled the criteria [of] demonstrable professional competence and personal independence of the Government”. It was hoped this would mean only suitable candidates would be put forward by the government and that the independence, credibility and competence of the Bank would be ensured.<sup>1</sup>

The 2010-15 Treasury Committee then broke new ground when the Budget Responsibility and National Audit Act 2011 provided a ‘double lock’ on the appointment and dismissal of members of the Budget Responsibility Committee, with the Treasury Committee having to provide its consent for either action. This statutory ‘double lock’ on appointments was a first for any select committee.

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<sup>1</sup> Institute for Government, BALANCING ACT: The Right Role for Parliament in Public Appointments, Akash Paun and David Atkinson, March 2011, p13

## 2 The scrutiny of appointments by the Treasury Committee

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### Appointments to the Monetary Policy Committee

3. The Treasury Committee has a long history scrutinising appointments to the Monetary Policy Committee (MPC) of the Bank of England.<sup>2</sup> In October 1997, in its Report *Accountability of the Bank of England*, the 1997–2001 Treasury Committee recommended that:

the Bank of England Act should make provision for the confirmation of nominations to the post of Governor, deputy Governor or nominated member of the MPC unless the Treasury Committee, within 30 calendar days of a nomination being made, makes a report to the House of Commons stating its reasons for considering that the candidate does not meet the criteria of competence and personal independence and recommending that the appointment be not confirmed.<sup>3</sup>

The 1997–2001 Treasury Committee concluded that [emphasis in original] “We believe very strongly in the importance of ensuring that the appointment process is carried out with openness and independence from political influence. **The Committee therefore intends, even in the absence of statutory provision, to instigate hearings and make reports to Parliament**”.<sup>4</sup>

4. In its response to this recommendation, the Government did not agree to providing the Treasury Committee with the effective veto it had demanded. The Government argued that:

On the question of confirmation hearings, while the Government can see some substantial difficulties with this proposal, it has an open mind on this matter and will keep it under review. Such hearings would, of course, raise important constitutional issues which go far wider than the Bank of England. The Government, therefore, does not feel it appropriate to include such provisions in the Bank of England Bill without the House having an opportunity to consider the broader implications. The Government notes with interest the Committee’s intention to instigate hearings for newly-appointed members of the MPC.<sup>5</sup>

The Bank of England Act 1998 did not contain provision for the confirmation of nominees to the MPC by the Treasury Committee. However, the Treasury Committee has established a practice of holding pre-commencement hearings into MPC appointments as soon as possible after the announcement of the appointment has been made.

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2 This Report concerns Treasury Committees since 1997. For ease of reference, we refer to different Treasury Committees by the years of their respective Parliament.

3 Treasury Committee, *Accountability of the Bank of England*, First Report of Session 1997–98, HC282, para 47

4 Treasury Committee, *Accountability of the Bank of England*, First Report of Session 1997–98, HC282, para 49

5 Treasury Committee, *Accountability of the Bank of England: The Response of the Government and the Bank of England to the First Report from the Committee in Session 1997–98*, Third Special Report in Session 1997–98, HC 502, Appendix 1

5. In 1997, the Treasury Committee recommended that “Candidates for the Governorship, Deputy Governorships and other Monetary Policy Committee posts should be selected to meet the twin requirements of demonstrable professional competence and personal independence from the Government”.<sup>6</sup> The passage of time has seen little change to these requirements. At the beginning of the last Parliament, the then Treasury Committee concluded that:

We will follow previous practice and continue to use the criteria of professional competence and personal independence against which to consider appointees to the Monetary Policy Committee.<sup>7</sup>

### **Appointments to the Financial Policy Committee (FPC)**

6. The criteria used for the appointments to the Monetary Policy Committee have also been used for appointments to the Financial Policy Committee, both in its interim and statutory form. The 2010-15 Treasury Committee argued in 2011 that:

At present, we see no reason to differ from the practice undertaken at appointment hearings into the MPC and the OBR. Personal independence and professional competence are the criteria we will use to assess the suitability of the proposed candidates to the interim FPC.<sup>8</sup>

The Committee adopted the same approach in its scrutiny of appointments to the statutory FPC.<sup>9</sup>

### **Appointments to the Budget Responsibility Committee (BRC)**

7. The Treasury Committee’s scrutiny of appointments to the BRC have a statutory basis under the Budget Responsibility and National Audit Act 2011. Under that Act, the Treasury Committee has a double lock on appointments to the BRC, with the Chancellor unable to either appoint, or dismiss, any member of the BRC without the consent of the Treasury Committee.<sup>10</sup>

8. This Committee has already considered the reappointment of Mr Robert Chote as Chair of the BRC. Again, the Committee used the same criteria as were used when considering appointments to the MPC, FPC, and the Office of Tax Simplification. In our Report on the reappointment of Mr Chote, we noted that “This Committee agrees with its predecessor that personal independence and professional competence are the appropriate criteria to judge the suitability of the Chair of the OBR”.<sup>11</sup>

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6 Treasury Committee, Accountability of the Bank of England, First Report of Session 1997-98, HC , para 46

7 Treasury Committee, Second Report of Session 2010-12, Appointment of Dr Martin Weale to the Monetary Policy Committee of the Bank of England, HC 475-I, para 4

8 Treasury Committee, Appointment of Dr Donald Kohn to the interim Financial Policy Committee, Thirteenth Report of Session 2010-12, para 7

9 Treasury Committee, Appointments of Dame Clara Furse, Richard Sharp, and Martin Taylor to the Financial Policy Committee, First Report of Session 2013-14, HC 224 , para 6

10 Budget Responsibility and National Audit Act 2011, Schedule 1

11 Treasury Committee, Reappointment of Robert Chote as Chair of the Office for Budget Responsibility, First Report of Session 2015-16, HC459, para 12

## Appointments to the Office of Tax Simplification

9. The Office of Tax Simplification was created in 2010.<sup>12</sup> The 2010-15 Treasury Committee used the same criteria as are used for FPC and MPC appointments when it considered the appointment of the chair and Tax Director of the OTS. As the Committee noted:

At present, we see no reason to differ from the practice undertaken at appointment hearings into the MPC, OBR and iFPC. Personal independence (including lack of conflicts) and professional competence are the criteria we use to assess the suitability of the proposed candidates to the positions of Chair and Tax Director of the OTS.<sup>13</sup>

10. The Government has announced its intention of putting the OTS on a statutory footing next year.<sup>14</sup> The Office of Tax Simplification's Interim Framework Document notes on appointments to the OTS that:

The Chancellor of the Exchequer is responsible for the appointment of the Chair [of the OTS] and Tax Director (in consultation with the Chair) and ensuring that the Treasury and HMRC appoint appropriate senior executives to the Office's Board.

The Treasury Select Committee may choose to hold a post-appointment hearing with regard to the Chairman and Tax Director.<sup>15</sup>

**11. The Office of Tax Simplification (OTS) has been put on a statutory basis. This is welcome. The independence of the Office of Tax Simplification's senior staff should be entrenched. Those nominated as the Chairman and Tax Director of the OTS should be available for pre-appointment hearings before this Committee. The legislation should ensure that such appointments, and any dismissals, should be made with the consent of the Treasury Committee. This will mirror the statutory requirements for appointments to the Budget Responsibility Committee of the Office for Budget Responsibility. It is crucial that the scope and limitations of that independence are fully understood by HM Treasury, the OTS, Parliament and the public.**

## Appointments of the Chairman of the Court of the Bank of England and of the Chairman of the Financial Conduct Authority

12. The Treasury Committee in the previous Parliament also held appointment hearings with Anthony Habgood, who was appointed as Chairman of the Court of the Bank of England, and John Griffith-Jones, who was appointed as Chairman-designate of the Financial Conduct Authority.

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12 <https://www.gov.uk/government/organisations/office-of-tax-simplification/about/our-governance>

13 Treasury Committee, Appointments to the, Office of Tax, Simplification, Twenty-fourth Report of Session, 2010-12, HC 1637, para 3

14 Office of Tax Simplification, Office of Tax Simplification Interim Framework Document, 21 July 2015

15 Office of Tax Simplification, Office of Tax Simplification Interim Framework Document, 21 July 2015

13. These roles were not specifically considered against the criteria of personal independence and professional competence. More wide ranging discussions were held with both appointees, and more narrative conclusions drawn.

14. For example, in the case of Mr Griffith-Jones, the 2010-15 Treasury Committee noted that it “aimed to assess his professional experience as well as his views on matters affecting the FCA”.<sup>16</sup> That Committee drew conclusions on a number of subjects, namely “[its] expectations of Mr Griffith-Jones in his new role; the accountability of the FCA to Parliament; the future governance of the FCA; and matters in relation to the FCA’s new responsibility for promoting competition in the interests of consumers.”<sup>17</sup>

15. The conclusions of the 2010-15 Treasury Committee on Mr Habgood’s appointment as Chairman of the Court of the Bank of England were also narrative in nature. The Committee “approved” his appointment while making a number of other comments. These included welcoming “Mr Habgood’s recognition of the need for fundamental reform of the governance of the Bank of England and his support for the Committee’s key recommendations in this area”<sup>18</sup>, as well as warning that “Mr Habgood will need to make a substantial personal commitment to ensure that he is adequately familiar with these matters for the role he will play. This may require him to devote much more time to his new role than he appears to envisage”.<sup>19</sup> The Committee also recommended that, since he “was unable to provide recent examples of significant media and communications work”, “Mr Habgood [should] consider how best to develop his skills to fulfil this crucial public role”.<sup>20</sup>

## Appointment of the Governor of the Bank of England

16. In its Report on *Confirmation Hearings*, the 1997–2001 Treasury Committee noted in 1998 that for the questionnaires given to appointees by the Committee prior to their oral evidence sessions, “The Governor and deputy Governors have wider responsibilities (including, in the case of the Governor, international responsibilities including membership of the European Monetary Institute), and their questionnaires might be expected to be more elaborate.”<sup>21</sup> This wider role of the Governor was re-iterated by the Treasury Committee, in the last Parliament, in its consideration of the appointment of Dr Mark Carney as Governor of the Bank of England. It noted that:

When considering appointees for the Monetary Policy Committee, we judge them against criteria of professional competence and personal independence. The Governor’s role is much wider than that of an MPC member, so we questioned Dr Carney on a range of subjects in order to reach a judgement in

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16 Treasury Committee, Appointment of John Griffith-Jones as Chair-designate of the Financial Conduct Authority, Sixth Report of Session 2012–13, HC721, para 4

17 Treasury Committee, Appointment of John Griffith-Jones as Chair-designate of the Financial Conduct Authority, Sixth Report of Session 2012–13, HC721, para 4

18 Treasury Committee, Appointment of Anthony Habgood as Chairman of the Court of the Bank of England, Fourth Report of Session 2014–15, HC 451, para 20

19 Treasury Committee, Appointment of Anthony Habgood as Chairman of the Court of the Bank of England, Fourth Report of Session 2014–15, HC 451, para 21

20 Treasury Committee, Appointment of Anthony Habgood as Chairman of the Court of the Bank of England, Fourth Report of Session 2014–15, HC 451, para 22

21 Treasury Committee, Confirmation Hearings, Third Report of Session 1997-98, HC 571, para 10

addition as to his skills and experience, leadership qualities and views on the governance and accountability of the Bank of England.

[...] We conclude that he has the necessary professional skills, qualities and experience, and personal independence, to be Governor of the Bank of England.<sup>22</sup>

17. The previous Government had rejected the idea of giving the Treasury Committee power of veto over the appointment and dismissal of the Governor of the Bank of England. In the 2010-15 Treasury Committee inquiry into the Accountability of the Bank of England, the Chancellor argued that “because the OBR performs what is essentially an auditing function for the Government, and the Bank of England carries out executive functions, the two institutions are materially different”.<sup>23</sup> The Chancellor “used this distinction to argue that the Treasury Committee’s power of veto over the appointment or dismissal of the leaders of the OBR should not apply to the position of the Governor of the Bank”.<sup>24</sup> The 2010-15 Treasury Committee was not persuaded by this line of argument. It concluded that:

The power of veto with respect to the OBR was given to ensure the independence and accountability of that body. The Governor of the Bank’s independence from Government is crucial for his or her credibility. Given the vast responsibilities of the Governor, the case for this Committee to have a power of veto over the appointment or dismissal of the Governor is even stronger than it is with respect to the OBR. We therefore recommend that, in order to safeguard his or her independence, the Treasury Committee is given a statutory power of veto over the appointment and dismissal of the Governor of the Bank of England.<sup>25</sup>

In its response, the Government countered that the independence of the Governor was “safeguarded via existing mechanisms, such as his appointment by the Queen”.<sup>26</sup> The Government also argued that:

The Bank of England undertakes policy actions that directly affect markets and, as such, appointments to the Bank’s executive or policy committees are market sensitive. This market sensitivity makes these roles unsuitable for pre-appointment vetting.<sup>27</sup>

**18. This Committee agrees with its predecessor, and with the Parliamentary Commission on Banking Standards, that giving Parliament the effective veto over the appointment and dismissal of the Governor of the Bank of England would bolster his or her independence. The Bank of England Bill should be amended to reflect this.**

22 Treasury Committee, Appointment of Dr Mark Carney as Governor of the Bank of England, Eighth Report of Session 2012–13, HC 944, paras 17-18

23 Treasury Committee, Twenty-first Report of Session 2010–12, Accountability of the Bank of England, HC 874, para 148

24 Treasury Committee, Twenty-first Report of Session 2010–12, Accountability of the Bank of England, HC 874, para 148

25 Treasury Committee, Twenty-first Report of Session 2010–12, Accountability of the Bank of England, HC 874, para 148

26 HM Treasury, A new approach to financial regulation: securing stability, protecting consumers, January 2012, Cm 8268, para B.30

27 HM Treasury, A new approach to financial regulation: securing stability, protecting consumers, January 2012, Cm 8268, para B.30

## Appointments to the Prudential Regulatory Committee

19. In July 2015, HM Treasury began a consultation on a new Bank of England Bill. The Treasury proposed that the Prudential Regulation Authority (PRA) would cease to be a subsidiary of the Bank of England, and instead be fully integrated into the Bank.<sup>28</sup> The Treasury noted that “To implement this change, the PRA’s functions will be transferred to the Bank itself, and a new Prudential Regulation Committee (‘PRC’) will be established within the Bank with responsibility for exercising them”.<sup>29</sup> The Treasury then provided the following outline of the PRC:

The government plans to establish the PRC on the same basis as the MPC and, in line with the approach taken to the MPC and FPC, the Bill will provide for a new remit letter from the government to the PRC, to highlight those aspects of government economic policy that are most relevant to the PRC’s duties. The commitment to a PRC remit letter was recently published in the Treasury’s 2015 publication *Fixing the foundations: Creating a more prosperous nation*.

Membership of the PRC will mirror the current PRA Board. The Deputy Governor for Prudential Regulation will continue to be the Chief Executive Officer, responsible within the Bank for its prudential regulation functions (with the exception of the supervision of financial market infrastructure), and be accountable to Parliament for the performance of those functions. In line with arrangements for the MPC and the FPC, in the future the Chancellor will appoint the external members of the new PRC, and will approve the appointment of internal members. The majority of members will continue to be independent.<sup>30</sup>

20. The draft Bank of England and Financial Services Bill provides the following membership of the Prudential Regulation Committee:

(2) The Prudential Regulation Committee is to consist of—

...(a) the Governor of the Bank,

...(b) the Deputy Governor for financial stability,

...(c) the Deputy Governor for markets and banking,

...(d) the Deputy Governor for prudential regulation,

...(e) the Chief Executive of the Financial Conduct Authority,

...(f) one member appointed by the Governor of the Bank with the approval of the Chancellor of the Exchequer, and

...(g) at least 6 members appointed by the Chancellor of the Exchequer.

28 HM Treasury, Bank of England Bill: Technical consultation, July 2015

29 *ibid*, para 2.6

30 *ibid*, paras 2.10–2.11

21. **The Bank of England and Financial Services Bill will create a Prudential Regulation Committee (PRC). Should the Bill be enacted, it is the intention of this Committee to hold pre-appointment hearings with those who will sit on the PRC, in line with the current arrangements for those who sit on the Monetary Policy Committee and the Financial Policy Committee. The Treasury Committee will use the same criteria of personal independence and professional competence to assess appointments to the PRC as for the other policy committees of the Bank of England.**

### The Chief Executive of the Financial Conduct Authority

22. In its Report on the Financial Conduct Authority, the 2010-15 Treasury Committee argued that:

The Current legislative proposals do not provide adequate accountability, nor the framework for sufficient scrutiny of, and explanation by, the regulator. We therefore recommend:

[..]

- That the legislation provide that the Chief Executive of the FCA be subject to pre appointment scrutiny by this committee.<sup>31</sup>

23. In its response to the Report, the Government rejected the Committee's recommendation, again appealing to the market sensitivity of the appointment:

The Government also agrees that the FCA Chief Executive should be subject to a hearing before the Treasury Committee. However the Government proposes that the appointment be subject to a pre-commencement hearing by the Treasury Committee according to the process appropriate for market-sensitive appointments, such as those of appointees to the Monetary Policy Committee of the Bank of England and the FSA Chairman, rather than a pre-appointment hearing. Under these arrangements, after the appointment of the Chief Executive has been approved, the Treasury Committee will be invited to convene a hearing before the CEO takes up their post. In the case of the CEO-designate, the Treasury Committee will be invited to convene a hearing following his formal appointment once the Bill has received Royal Assent. Recognising the Treasury Committees interest in the area the Government will also invite the TSC to convene a pre-commencement hearing for the position of Chairman of the FCA. This does not need to be provided for in legislation.<sup>32</sup>

The 2010-15 Treasury Committee in turn responded that:

The Government agrees that the FCA Chief Executive should be subject to a hearing before the Treasury Committee. However, it argues that this should be a pre-commencement hearing rather than a pre-appointment hearing as the Committee recommended. This, it argues, is necessary because, as with

<sup>31</sup> Treasury Committee, Financial Conduct Authority, Twenty-sixth Report of Session 2010–12, para 80

<sup>32</sup> Treasury Committee, Twenty-eighth Report of Session 2010–12, Financial Conduct Authority: Report on the Government response, HC 1857, Appendix para 26

the MPC and the FSA Chairman, it is a market-sensitive appointment. The Government has not supported its assertion with any further explanation, nor have we seen one in evidence. A pre-appointment hearing is appropriate for the CEO of the FCA.<sup>33</sup>

The 2010-15 Treasury Committee reiterated this position in its subsequent Report on the Financial Services Bill, in which it concluded that:

The Government has failed to provide an adequate explanation as to the unsuitability of a pre-appointment hearing for the Chief Executive of the FCA. We do not accept its assertion that the appointment is too market-sensitive for such a procedure. We continue to believe that a pre-appointment hearing is appropriate for the CEO of the FCA. Parliamentary scrutiny through a pre-appointment hearing will bolster the legitimacy of the appointment.<sup>34</sup>

**24. In the last Parliament, the Treasury Committee recommended that there should be pre-appointment hearings for the Chief Executive of the FCA. We agree. The Government should ensure that it nominates its preferred candidate for the current vacancy sufficiently in advance of the proposed start date of the Committee to enable this Committee to undertake a pre-appointment hearing. The independence of the FCA from interference from the executive is essential. That independence can and should be entrenched by a statutory veto on appointments and dismissals to the post of Chief Executive of the FCA.**

### The Regulatory Decisions Committee of the FCA

25. The FCA's Regulatory Decisions Committee (RDC) is responsible for making final decisions on behalf of the FCA in cases where its supervisory or enforcement actions are contested. The RDC is a committee of the FCA board and its chairman is a legally qualified FCA employee. Other members of the RDC are not FCA employees, but have a range of skills and experience in financial services.

26. The Prudential Regulation Authority has a set of enforcement powers analogous to those of the FCA for breaches of its regulatory requirements, although it uses them far more rarely. Until now, case decisions have been taken by Decision-Making Committees (DMCs). Composition of these committees varies according to the "importance, complexity and urgency of the decision", with the most significant decisions being taken by the PRA Board (excluding the FCA CEO) sitting as a decision-making committee.

27. The Final Report of the Parliamentary Commission on Banking Standards, published in June 2013, made a number of recommendations on enforcement decision-making that sought to bring greater accountability and expertise to the process. Among other things, it recommended that decision-making committees should "contain several members with extensive and senior banking experience" and "be chaired by someone with senior judicial experience".

<sup>33</sup> Treasury Committee, Twenty-eighth Report of Session 2010–12, Financial Conduct Authority: Report on the Government response, HC 1857, para 10

<sup>34</sup> Treasury Committee, Financial Services Bill, First Report of Session 2012–13, HC 161, para 65

28. The Treasury's Review of Enforcement Decision-Making, published in December 2014, considered the role of the PRA and FCA's decision-making committees. It noted the PCBS's recommendations and recommended that "the TSC [Treasury Select Committee] might consider requiring the attendance of future RDC and DMC Chairmen on a pre-commencement basis" in order to make these bodies more accountable to Parliament. It also recommended that the PRA establish a "functionally independent enforcement DMC, composed of independent members [and] a dedicated chairman with significant legal or judicial experience".

29. **The Committee has acted on the Treasury's recommendation to conduct pre-commencement hearings with the Chairman of the FCA's Regulatory Decisions Committee and intends to continue this practice. It also intends to conduct pre-appointment hearings for the Chairman of the PRA's Decision-Making Committee, if and when it is constituted.**

## Conclusion

30. **It has been the practice of Treasury Committees, in former Parliaments, to consider two criteria when considering appointments to the Monetary Policy Committee, the Financial Policy Committee, the Budget Responsibility Committee, the Office of Tax Simplification and the FCA's Regulatory Decisions Committee. These criteria are personal independence and professional competence. The Committee will continue with that practice for all appointments to these bodies during this Parliament.**

31. **In considering the appointment of the Governor of the Bank of England, the additional executive responsibilities of the position were reflected in the TSC's detailed cross-examination and more extensive reporting, two months prior to taking up post. Governors of the Bank of England and those who hold executive functions within an organisation, may also expect additional commentary, along with the Committee's consideration of their personal independence and professional competence.**

32. **Consideration by the Treasury Committee of appointments to the Chairman of the Court of the Bank of England or to the Chairman of the Financial Conduct Authority will be more wide-ranging, and the Committee may decide to provide a more detailed conclusion in its Reports on appointments to these posts.**

### 3 Reporting on appointments

33. In 1998, the 1997–2001 Treasury Committee provided the following guidance on how it expected to report on its hearings with members of the Monetary Policy Committee:

We expect our reports following the hearings to be brief; if, however, we were to conclude that an appointee did not, in our opinion, fulfil either (or both) of the criteria [of professional competence and personal independence], we would expect to indicate which criterion was at issue. The nominees and the Governor or Chancellor as nominators will normally receive copies of our report in confidence in advance of publication. We would expect an early response from the Government and/or the Bank, as appropriate.<sup>35</sup>

34. This guidance has, in the main, been followed by the Treasury Committees that followed. After a process of iteration, most Reports on appointments, whether to the Monetary Policy Committee, or more recently to the Financial Policy Committee or the Budget Responsibility Committee, take the same form:

- A short description of the background of the appointee;
- A short description of the evidence provided to the Committee by the appointee;
- A very short conclusion, normally stating that the Committee is satisfied the appointee has the professional competence and personal independence required for the role, and wishing them well.

Such Reports are then published alongside the transcript of the oral evidence provided by the appointee. Their CV and the answers to the Committee's questionnaire are normally published at the time of the oral evidence session with the Committee.

#### Enhancing the Reports

35. There have been times where the Treasury Committee has provided further commentary about an appointment. This additional commentary can be about the appointment process, where for example on the appointment of Andy Haldane to the Monetary Policy Committee the Treasury Committee, in the last Parliament, noted that:

The usual practice of the Bank of England—which the Treasury Committee supports—is to fill Executive Director posts by fair and open competition. This was not done in this case. On this occasion, a case could be made for an exception to the usual practice because of the wider reorganisation of the Bank that was being undertaken and the recent expansion of the Bank's responsibilities. Nevertheless, we would expect the usual appointment process to be followed in future.<sup>36</sup>

It may also be about the appointee themselves. For example, the Treasury Committee, in the last Parliament, made the following recommendation about Alastair Clark's appointment to the interim Financial Policy Committee:

<sup>35</sup> Treasury Committee, Confirmation Hearings, Third Report of the Session 1997-98, HC571, para 11

<sup>36</sup> Treasury Committee, Appointment of Andy Haldane to the Monetary Policy Committee, Twelfth Report of Session 2013-14, HC1235, para 7

We are satisfied that Mr Clark has a great deal of professional competence. Whether he has the necessary direct experience to be an external member is not so clear. [...]

We accept the case for Mr Clark being appointed to the interim FPC while it has no legislative basis. He has much to offer the body from his knowledge of regulatory issues. But to ensure that the interim FPC has the intended representation of wider views, we recommend that a fifth external member also be appointed.<sup>37</sup>

In the same Report, the Treasury Committee, in the last Parliament, also provided the following advice to Michael Cohrs: “We note the apparent reticence of Mr Cohrs about speaking out in speeches and statements about his work while on the FPC, and we would ask him to reconsider.”<sup>38</sup>

Other examples of such additional commentary exist.<sup>39</sup> The 2010-15 Treasury Committee made the following comment on the appointment of Dr Nemat Shafik as a Deputy Governor of the Bank of England:

We are satisfied that Dr Nemat Shafik has the professional competence and personal independence to be the Deputy Governor of the Bank of England responsible for Markets and Banking. She has extensive experience of macroeconomics, global financial issues and international development. Her apparent inexperience of the conduct of monetary policy, management of a central bank balance sheet, and market structures and practices suggest that it will be important that her knowledge of these areas be developed quickly so that she can become fully effective in her new role. We wish her every success in her role.<sup>40</sup>

36. The only example of a Committee not approving a candidate was in May 2000, when the then Treasury Committee concluded in respect of Mr Christopher Allsopp that:

In the case of Mr Allsopp, however, we were disappointed in his answers to our questions, and believe that this casts doubt on whether he possesses the skills required to take part in meetings of the Monetary Policy Committee. We therefore call on the Chancellor of the Exchequer to think again about Mr Allsopp's appointment.<sup>41</sup>

37 Treasury Committee, Appointments of Michael Cohrs and Alastair Clark to the interim Financial Policy Committee, Fourteenth Report of Session 2010–12, HC 1125, paras 10, 13

38 Treasury Committee, Appointments of Michael Cohrs and Alastair Clark to the interim Financial Policy Committee, Fourteenth Report of Session 2010–12, HC 1125, para 5

39 See for example Treasury Committee, Appointments of Dame Clara Furse, Richard Sharp, and Martin Taylor to the Financial Policy Committee, First Report of Session 2013–14, HC 224, paras 9-10,13;

40 Treasury Committee, Appointment of Dr Nemat Shafik as Deputy Governor of the Bank of England, Third Report of Session 2014–15, HC 492, para 6

41 Treasury Committee, THE MONETARY POLICY COMMITTEE OF THE BANK OF ENGLAND: CONFIRMATION HEARINGS, Seventh Report of Session 1999-2000, para 5

However, the Government allowed Mr Allsopp to continue as a member of the Monetary Policy Committee, and replied to the Committee that:

Mr Christopher Allsopp fully satisfies the criteria for appointments to the Bank of England Monetary Policy Committee. He is one of a line of distinguished academics who serve on the MPC. A specialist in international macroeconomics, Mr Allsopp's previous experience includes work at the OECD in Paris and three years as Adviser at the Bank of England as well as consultancy appointments with many other leading UK and international organisations. His appointment has been widely welcomed, including personally by the Governor and Deputy Governor.<sup>42</sup>

**37. Treasury Committees, in former Parliaments, have found it useful, at times, to provide additional commentary on both the appointees and the process of appointment in their Reports. To enhance the transparency of the Committee's work, the Committee has concluded that there may be merit in expanding such commentary.**

**38. The Treasury Committee will be clear about whether an appointment has its approval. Where the questioning of the Committee raises concerns that need to be addressed by an appointee, these will be specified in the Report of the Committee on that appointment.**

39. Concerns around personal independence, if they do not completely rule out an appointee, are most likely to relate to conflicts of interest or the perception of such conflicts. We would expect candidates to deal with such conflicts immediately, and inform the Committee of their resolution.

40. Concerns about professional competence may take several forms. They might, for example, be to do with an appointee's ability to engage and communicate with the public, or a lack of relevant knowledge or experience.

41. Where concerns about an appointee's professional competence do not rule them out, the Committee may simply acknowledge the current weakness, in an expectation that over time the appointee will seek to build up strength in the area identified. The Committee may also follow up such concerns in subsequent hearings with the appointee, or request additional written evidence after a period of time. In the most exceptional cases, the Committee may require an appointee to return to give evidence after a period of time has elapsed.

**42. The Committee will undertake to provide its approval (or not) of an appointment by publishing its Report as soon as reasonably possible after a hearing. This may mean a longer interval of time between the hearing and notification of the Committee's decision.**

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42 Treasury Committee, THE MONETARY POLICY COMMITTEE OF THE BANK OF ENGLAND: CONFIRMATION HEARINGS: THE GOVERNMENT'S RESPONSE TO THE COMMITTEE'S SEVENTH REPORT OF SESSION 1999-2000 Seventh Special Report of Session 1999-2000

43. Should the concerns of the Treasury Committee be too great to merit approval of an appointee, or should an appointee not respond to the recommendations of the Committee, other routes are available to the Committee. For example, the Cabinet Office guidance for pre-appointment scrutiny by House of Commons select committees notes that:

Committees with concerns about an appointment have in the past raised concerns about a preferred candidate in private correspondence or discussion with the Minister, as an alternative to issuing a report in the first instance. Ministers in receipt of such approaches will want to consider whether or not it is advisable to press ahead with approving the appointment. In these circumstances, the committee can agree that the Minister shall inform the candidate of the committee's reservations before a formal report is made to the House.<sup>43</sup>

44. As discussed, Treasury Committees, in former Parliaments, have also pushed for the veto on appointments to the MPC, and a double lock on the appointment of the Governor of the Bank of England. While these may not be currently available, the Committee has another route available to it, as suggested in the Treasury Committee's Report, in the last Parliament, into the appointment of Mark Carney as Governor of the Bank of England:

When the Chancellor announced the appointment, he told the House that Dr Carney wished to appear before the Treasury Committee before taking up his appointment, and that Dr Carney would not otherwise be commenting at length on British economic policy until he took up his post. The Committee announced later that day that it would hold what would amount to a pre-appointment hearing with Dr Carney and report its conclusions to the whole House. If necessary, the Committee said that it would request that its recommendations be debated on the floor of the House.<sup>44</sup>

**45. Should the Treasury Committee disagree with any putative appointment, and should the person making the appointment, whether the Chancellor or another, not be swayed by its disapproval, it may refer its Report on that appointment for debate by the whole House, may call the Chancellor before the Committee for an explanation of his decision, or both.**

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43 Cabinet Office, Cabinet Office Guidance: pre-appointment scrutiny by House of Commons select committees, November 2013

44 Appointment of Dr Mark Carney as Governor of the Bank of England, Eighth Report of Session 2012–13, HC 944, para 13

## Conclusions and recommendations

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### Appointments to the Office of Tax Simplification

1. The Office of Tax Simplification (OTS) has been put on a statutory basis. This is welcome. The independence of the Office of Tax Simplification's senior staff should be entrenched. Those nominated as the Chairman and Tax Director of the OTS should be available for pre-appointment hearings before this Committee. The legislation should ensure that such appointments, and any dismissals, should be made with the consent of the Treasury Committee. This will mirror the statutory requirements for appointments to the Budget Responsibility Committee of the Office for Budget Responsibility. It is crucial that the scope and limitations of that independence are fully understood by HM Treasury, the OTS, Parliament and the public. (Paragraph 11)

### Appointment of the Governor of the Bank of England

2. This Committee agrees with its predecessor, and with the Parliamentary Commission on Banking Standards, that giving Parliament the effective veto over the appointment and dismissal of the Governor of the Bank of England would bolster his or her independence. The Bank of England Bill should be amended to reflect this. (Paragraph 18)

### Appointments to the Prudential Regulatory Committee

3. The Bank of England and Financial Services Bill will create a Prudential Regulation Committee (PRC). Should the Bill be enacted, it is the intention of this Committee to hold pre-appointment hearings with those who will sit on the PRC, in line with the current arrangements for those who sit on the Monetary Policy Committee and the Financial Policy Committee. The Treasury Committee will use the same criteria of personal independence and professional competence to assess appointments to the PRC as for the other policy committees of the Bank of England. (Paragraph 21)

### The Chief Executive of the Financial Conduct Authority

4. In the last Parliament, the Treasury Committee recommended that there should be pre-appointment hearings for the Chief Executive of the FCA. We agree. The Government should ensure that it nominates its preferred candidate for the current vacancy sufficiently in advance of the proposed start date of the Committee to enable this Committee to undertake a pre-appointment hearing. The independence of the FCA from interference from the executive is essential. That independence can and should be entrenched by a statutory veto on appointments and dismissals to the post of Chief Executive of the FCA. (Paragraph 24)

## The Regulatory Decisions Committee of the FCA

5. The Committee has acted on the Treasury's recommendation to conduct pre-commencement hearings with the Chairman of the FCA's Regulatory Decisions Committee and intends to continue this practice. It also intends to conduct pre-appointment hearings for the Chairman of the PRA's Decision-Making Committee, if and when it is constituted. (Paragraph 29)

## Conclusion

6. It has been the practice of Treasury Committees, in former Parliaments, to consider two criteria when considering appointments to the Monetary Policy Committee, the Financial Policy Committee, the Budget Responsibility Committee, the Office of Tax Simplification and the FCA's Regulatory Decisions Committee. These criteria are personal independence and professional competence. The Committee will continue with that practice for all appointments to these bodies during this Parliament. (Paragraph 30)
7. In considering the appointment of the Governor of the Bank of England, the additional executive responsibilities of the position were reflected in the TSC's detailed cross-examination and more extensive reporting, two months prior to taking up post. Governors of the Bank of England and those who hold executive functions within an organisation, may also expect additional commentary, along with the Committee's consideration of their personal independence and professional competence. (Paragraph 31)
8. Consideration by the Treasury Committee of appointments to the Chairman of the Court of the Bank of England or to the Chairman of the Financial Conduct Authority will be more wide-ranging, and the Committee may decide to provide a more detailed conclusion in its Reports on appointments to these posts. (Paragraph 32)

## Enhancing the Reports

9. Treasury Committees, in former Parliaments, have found it useful, at times, to provide additional commentary on both the appointees and the process of appointment in their Reports. To enhance the transparency of the Committee's work, the Committee has concluded that there may be merit in expanding such commentary. (Paragraph 37)
10. The Treasury Committee will be clear about whether an appointment has its approval. Where the questioning of the Committee raises concerns that need to be addressed by an appointee, these will be specified in the Report of the Committee on that appointment. (Paragraph 38)

11. The Committee will undertake to provide its approval (or not) of an appointment by publishing its Report as soon as reasonably possible after a hearing. This may mean a longer interval of time between the hearing and notification of the Committee's decision. (Paragraph 42)
12. Should the Treasury Committee disagree with any putative appointment, and should the person making the appointment, whether the Chancellor or another, not be swayed by its disapproval, it may refer its Report on that appointment for debate by the whole House, may call the Chancellor before the Committee for an explanation of his decision, or both. (Paragraph 45)

# Formal Minutes

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**Tuesday 9 February 2016**

Members present:

The Rt Hon Mr Andrew Tyrie, in the Chair

Mr Steve Baker

Rachel Reeves

Mr Jacob Rees-Mogg

Draft Report (*The Treasury Committee's scrutiny of appointments*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 45 read and agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No.134.

[Adjourned till Wednesday 10 February at 2.00 pm

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the Committee's website at [www.parliament.uk/treascom](http://www.parliament.uk/treascom).

### Session 2015–16

First Report	Reappointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 459
Second Report	The appointment of Dr Gertjan Vlieghe to the Monetary Policy Committee of the Bank of England	HC 497
Third Report	The re-appointment of Ian McCafferty to the Monetary Policy Committee of the Bank of England	HC 498
Fourth Report	Appointment of Tim Parkes as Chair of the Regulatory Decisions Committee	HC 735
Fifth Report	Appointment of Angela Knight as Chair of the Office of Tax Simplification	HC 734
Sixth Report	Spending Review and Autumn Statement 2015	HC 638
Seventh Report	Reviewing the Office for Budget Responsibility	HC 514