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European Committee B

CAPITAL MARKETS UNION

Thursday 3 December 2015

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STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chair: Mr David Hanson

† Baldwin, Harriett *(Economic Secretary to the Treasury)*
† Burgon, Richard *(Leeds East)* (Lab)
† Burns, Conor *(Bournemouth West)* (Con)
Coffey, Ann *(Stockport)* (Lab)
† Cummins, Judith *(Bradford South)* (Lab)
Davies, Geraint *(Swansea West)* (Lab/Co-op)
† Garnier, Mark *(Wyre Forest)* (Con)
Goodman, Helen *(Bishop Auckland)* (Lab)
† Graham, Richard *(Gloucester)* (Con)
† Mullin, Roger *(Kirkcaldy and Cowdenbeath)* (SNP)
† Prentis, Victoria *(Banbury)* (Con)
† Stride, Mel *(Lord Commissioner of Her Majesty's Treasury)*
† Tolhurst, Kelly *(Rochester and Strood)* (Con)

Joanna Welham, Clementine Brown, *Committee Clerks*

† attended the Committee

European Committee B

Thursday 3 December 2015

[MR DAVID HANSON *in the Chair*]

Capital Markets Union

[Relevant documents: European Union Documents Nos. 12263/15 and Addenda 1 and 2, 12601/15 and Addenda 1 and 2, and 12603/15.]

11.30 am

The Chair: Before we begin, it is important to briefly outline the procedure for Members. First, I will ask a member of the European Scrutiny Committee, who I understand to be the hon. Member for Rochester and Strood, to make a five-minute statement about the decision it made to refer the documents for debate. The Minister will then make a statement, with no interventions, of no more than 10 minutes, and questions to the Minister will follow. The total time for the statement and any questions and answers will be up to an hour. Once the questions have ended, either before or at the hour, the Minister will move the motion and may speak to it, should she wish. The debate will then take place. We have to conclude proceedings by 2 o'clock, and at that stage—if we reach that stage—we will accordingly have a vote or not.

11.31 am

Kelly Tolhurst (Rochester and Strood) (Con): It might be helpful to the Committee if I take a few minutes to explain the background to the documents and why the European Scrutiny Committee recommended them for debate. In February, the Commission launched a consultation about a proposed capital markets union. In September, it published a communication about an action plan for building the CMU. The Commission detailed a range of some 20 reforms that are a combination of legislative and non-legislative actions across a range of policy areas related to EU capital markets. Those actions aim to make it easier for all businesses, including small and medium-sized enterprises, to get access to funding and to create more investment opportunities for savers and investors.

Since 2007, the capital requirement directives have introduced a supervisory framework in the EU, which reflects the Basel Committee on Banking Supervision rules on capital measurement and capital standards. The latest legislation, known as the capital requirements directive IV, has been in force since July 2013 and transposes into EU law the latest global standards on bank capital adequacy. As part of the CMU project, the Commission seeks the development of a simple, transparent and standardised—or STS—securitisation market to support jobs and growth. It has proposed the first regulation before us today, to update the legal framework for securitisation and to develop the proposed STS regime. The second proposed regulation would amend a CRD IV regulation by recalibrating the prudential requirements for credit institutions and investment firms either issuing or purchasing securitisations.

The European Scrutiny Committee noted the Government's welcome for the CMU action plan, albeit with reservations about insolvency, private pensions and credit information about SMEs. We suggested that Members could explore those reservations further in this debate. We also noted that the Government strongly welcome the legislative proposals, although they seem to have reservations about some of the detailed text concerning possible binding remediation, the final certification and supervision regime, and the extent of the need for delegated acts.

Additionally, the Government have recently, and belatedly, identified a justice and home affairs issue in the proposed securitisation regulation that might require a UK opt-in to the measure. The Economic Secretary to the Treasury wrote to the Chairman of the European Scrutiny Committee to inform him of that on the evening of 1 December. The European Scrutiny Committee suggests that in this debate Members could further explore the Government's reservations and the justice and home affairs issue.

The Chair: I now call the Economic Secretary to the Treasury to make an initial statement. I remind Members that there will be no interventions on the statement, but there will be an opportunity for questions subsequently.

11.34 am

The Economic Secretary to the Treasury (Harriett Baldwin): It is a genuine delight to serve under your chairmanship this morning, Mr Hanson. I welcome this opportunity to discuss with the Committee the European Commission's action plan on building a capital markets union.

The capital markets action plan has the full support of the UK Government. We think it represents precisely the sort of work that Europe should be undertaking—work designed to improve EU competitiveness and create jobs and growth. The capital markets action plan sets out a range of initiatives that the Commission will pursue during the rest of its mandate. These will help to increase and diversify access to finance for businesses, create opportunities for investors and savers, and knock down barriers to saving and investment across 28 countries.

Lord Hill, the Commissioner with responsibility for financial services, has been clear that creating a capital markets union will be a step-by-step, consultative process and that decisions on the design of reforms will be evidence-based and subject to rigorous economic impact analysis. That will enable us to work with other member states to iron out issues in the detail. If we are to make the European Union more competitive, we need a true single market in capital. Delivery of a capital markets union forms part of the Government's agenda for a more competitive European Union, and it was included by my right hon. Friend the Prime Minister in his letter to Donald Tusk on the subject of renegotiation.

At this stage, I would like briefly to remind the Committee of the letter I sent earlier this week to my hon. Friend the Member for Stone (Sir William Cash), apologising for the fact that Government support for the draft Council conclusions on the capital markets union action plan was given while the action plan was still subject to this process of parliamentary scrutiny. That was the result of a lapse in due process. I assure hon. Members that we are reviewing our internal procedures in the light of that oversight to ensure that it does not happen again.

Also at the end of September, the European Commission published proposals for a revised regulatory framework for securitisations. The Government strongly welcomed that timely and necessary initiative, which will open up an important funding channel to help European economies, ultimately supporting jobs and growth. Diversity in funding channels is highly desirable, as it increases the resilience of economies to shocks, as well as supporting them to recover more quickly. Securitisations can help to spread risk across the entire financial sector and offer an additional investment opportunity for pension funds and long-term savers. However, securitisations can be a source of instability if not done within a robust regulatory framework, so we will seek to provide for a clear, workable and legally robust framework for market participants as a further necessary precondition for getting these markets going again.

The Government believe that these proposals provide a sound foundation on which to restart safely the European securitisation markets. Based on the joint work by the Bank of England and the European Central Bank, they focus on defining standards of simplicity, transparency and disclosure to allow market participants to understand the risk that they are taking on and to price it appropriately. We are consulting a wide range of market participants and practitioners to inform our contributions in the negotiations, which will once again involve building partnerships to work our way through some of the issues noted by my hon. Friend the Member for Rochester and Strood, including the justice and home affairs issue.

I hope that hon. Members will therefore support today's motion to note the Government's support for the capital markets union action plan and the publication of proposals to set out a robust framework for securitisations in the European Union. Together, these proposals will help to provide an additional funding boost to the economy and jobs and growth. I welcome this opportunity to answer questions from the Committee.

The Chair: Hon. Members now have until 12.34 pm at the latest to ask questions, subject to my discretion.

Mark Garnier (Wyre Forest) (Con): I thank my hon. Friend the Minister for her statement and I welcome the initiatives that are coming with the capital markets union action plan, but I would like her to reassure the Committee on a number of issues. Clearly what we are discussing is a very good thing, but is there any risk that it might expose us to negative factors, such as a financial transaction tax, which we might have to levy as part of a capital markets union across the whole EU? In addition, there are issues such as the location of clearing houses. Other important factors also need to be considered, such as how this issue relates to our proposals to secure our interest outside, not inside the eurozone and what effect the initiative might have on negotiations ahead of the referendum next year.

Harriett Baldwin: Let me take those points in turn. As a distinguished member of the Select Committee on the Treasury, my hon. Friend knows that the UK does not object in principle to financial transaction taxes. The UK has a financial transaction tax on stocks that are bought in the UK. However, the Government are concerned about the application of a financial transaction tax on instruments that could be traded elsewhere in the world, because if it were applied to something that is easily mobile and can be moved quickly to another jurisdiction, that is what would happen. There are no proposals in the capital markets union steps outlined today to harmonise taxation in any way. The Government stand strongly on our belief that taxation is a matter for member states and we continue to argue that case.

On the more general points about renegotiation and the Prime Minister's letter to Donald Tusk, it is clear that the European Union needs to address the fact that nine countries continue to have their own currencies and 19 have chosen to adopt the euro. There is absolutely no prospect of the UK ever joining the euro, so as part of the renegotiation we need to make it clear across the 28 EU countries that positive initiatives such as this on capital markets must reflect the fact that this is a multi-currency single market for capital. We will fight vigorously against any proposals that threaten that. That is a key part of the renegotiation.

Roger Mullin (Kirkcaldy and Cowdenbeath) (SNP): It is a pleasure, Mr Hanson, to serve under your chairmanship for the first time. My question is on a fairly narrow point. On a number of occasions the Minister has mentioned risk, and some of the documents refer to risk. She will know that there is no unit of measurement for risk. I often think that Governments would be well advised to disaggregate risk into its different components so that they can be clearer about measuring probabilities and chances, and negative outcomes in financial terms, for example. I would like to hear her remarks about whether that would be worth while. I am asking because I was pleased to hear her remark about a rigorous impact assessment. It strikes me that in such an assessment particular care will have to be taken about how risk is measured.

Harriett Baldwin: I welcome the hon. Gentleman's question about risk and I draw his attention to this incredibly thorough document. With his academic interest in such subjects, he will want to read the academic articles cited in this weighty tome. He will know that there are of course many risks in capital markets. Not only is there market risk, there is credit risk, regulatory risk and, in a multi-currency single market, currency risk. In a previous life, I specialised in this subject, so perhaps he and I could go for a drink some time and talk about leptokurtic distributions and other such esoteric matters, which might not fascinate the rest of the Committee as much as us.

The Chair: As long as I don't have to chair it.

Harriett Baldwin: As far as the proposals before us are concerned, the important point about risk is that, following the crisis in 2007, the market for securitised transactions—which were a source of incredibly un-transparent risk in the financial sector, with incredibly harmful impacts throughout European Union—was so bad that it has now dried up almost completely in the EU. The purpose of moving so rapidly, which the Government support, is to bring back what we would

[Harriett Baldwin]

call the good risk of simple transactions to securitise basic lending across the European Union. That is why the speed at which this is moving is welcome. The simplicity and transparency of the securitisations proposed secure the benefit of those good ways of reducing risk on bank balance sheets, freeing up lending that the banks can do in the real economy to support jobs and growth, which is an important function. That is why we think this simple approach to securitisation is a good way of managing the risks, and we are opposed to the kind of complex securitisations and opaque risks that contributed to the crisis.

The Chair: If no more Members wish to ask questions, we will proceed to the debate.

11.46 am

Harriett Baldwin: I beg to move,

That the Committee takes note of European Union Documents No. 12263/15 and Addenda 1 and 2, a Commission Communication: Action Plan on Building a Capital Markets Union, No. 12601/15 and Addenda 1 and 2, a Commission Proposal for a Regulation laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012, and No. 12603/15, a Commission Proposal for a Regulation amending Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms; also notes that the Government supports the Commission's efforts to ensure that the Capital Markets Union action plan supports jobs and growth, and in particular that the Government welcomes the focus on helping small and medium-sized enterprises (SMEs) get the funding they need to grow and succeed; and further notes that the Government welcomes the Commission's proposals on securitisation, which provide a framework for the revitalisation of securitisation markets in a prudent and sound fashion, in order to improve access to finance across the wider economy and help to deliver on the objectives of Capital Markets Union.

I shall probably fall into the trap of using a three-letter acronym, which is something the Treasury likes to do, and refer to the CMU action plan. At the end of September the European Commission published the action plan, which has the Government's full support because it represents precisely the sort of work that Europe should be undertaking. Following the wave of regulation put in place in response to the financial crisis, the Commission has now turned its attention, in a welcome way, to generating jobs and growth in the European Union. The capital markets action plan represents the beginning of that process and sets out a range of work streams that the Commission will pursue over the rest of its mandate. They will help to increase and diversify access to finance for business and will create opportunities for Europe's investors.

European savings levels are quite good, but people lack options to invest their savings in growing firms throughout the single market, because at the moment traditional bank lending to business is stifled and because the many costs of investing money across national borders in the European Union mean that savers have a strong tendency to invest only in their home member state. Importantly, the Commission is not only tackling a problem that we have been advocating should be addressed for some time, but doing so in a way that is firmly rooted in the better regulation agenda for which the Prime Minister and others have been calling. Furthermore, to date there has been no presumption that legislative action is the best course. The Commission has made clear its commitment to consider all options. The action plan fully embodies that approach.

Delivery of a CMU forms part of the Government's agenda for a more competitive EU. If we are to make Europe more competitive, we need a true single market in capital, because that will break down the barriers that stop flows between member states and will help businesses to access the finance that they need to grow and succeed. As Committee members will have seen from the documents, the action plan is thematic, identifying six key areas for reform: financing for innovation; start-ups and non-listed companies; making it easier for firms to access and use public markets; measures on long-term infrastructure and sustainable investment; fostering retail and institutional investment; leveraging bank capacity; and facilitating cross-border investment. The Commission has also identified a set of priority measures for immediate action, which include today's proposals on securitisation, revisions to current EU legislation on venture capital and prospectuses, and a call for evidence on the cumulative impact of current EU financial services legislation. These are all priorities that the Government support.

Although the Government have prioritised helping our small and medium-sized firms, we know that such firms can still find it hard to access finance. The CMU will help by giving them access to more investors across the single market by pooling investment resources, helping venture capitalists and angel investors, and making it easier to list on public markets. From our perspective, it is not just our smaller firms that will benefit; breaking down barriers across the single market will help British firms to diversify their investments at a lower cost and to offer our competitive products to savers across the single market.

The European Commission has also published its proposals for a revised regulatory framework for securitisations. The impact of the global financial crisis was severe and has reduced the market for European securitisations, with the end result that that source of funding for the real economy was almost entirely shut down. Some in the industry believe that the EU securitisation market is now slowly dying, with new issuances at only a fraction of the pre-crisis level. Unless market participants are given a clear signal that securitisation markets have a long-term future in the EU, we risk losing the experience and the necessary expertise in such instruments altogether, making it difficult to restart these markets.

As I said earlier in answer to questions, securitisations can also be a source of instability if they are not done within a robust regulatory framework. A vital objective for such a framework is to restore trust in the information provided in respect of these products, which will, of course, help to address the lack of confidence stemming from the many unpleasant surprises that investors experienced with regard mainly to US-originated securitisations, where complex structures made it difficult for investors to judge the risk involved and where issuers were able to hide behind credit rating agencies. If we want to get these markets going again, it is important that an appropriate balance is found between the responsibilities and corresponding incentives for issuers as well as investors.

The Government believe that these proposals provide a sound foundation on which safely to restart European securitisation markets. We also believe that a self-certification approach attesting to the quality of securitisation is needed in order to avoid the moral hazards that we saw in the past. We believe this regime can be made to work, provided that the criteria for securitisation to qualify as simple and transparent are very clear and unambiguous and that there is clarity for all participants, whatever their roles and responsibilities.

The UK's overriding objective during the negotiations is to get these markets going again in a prudentially sound way. Provided that the overall approach is robust, it is also appropriate to recalibrate the prudential requirements in a more risk-sensitive fashion. We are working closely with the Bank of England to seek an outcome that addresses financial stability concerns but also provides the necessary incentives to encourage simple, transparent securitisation and to discourage less transparent and unduly complex structures. We are consulting a wide range of market participants and practitioners to inform our contributions to the negotiations.

I hope hon. Members will support today's motion and note

"that the Government supports the Commission's efforts to ensure that the Capital Markets Union action plan supports jobs and growth, and in particular…helping small and medium-sized enterprises…get the funding they need to grow".

11.54 am

Richard Burgon (Leeds East) (Lab): It is a great pleasure to serve on my first European Committee under your chairmanship, Mr Hanson. I am pleased to serve opposite the Minister.

On this occasion, my remarks will be brief, but I note the late arrival of two letters from the Minister to the European Scrutiny Committee and to members of this Committee. I understand that the letters were sent to the European Scrutiny Committee on Monday evening, and I believe that I should have received them yesterday, although I have no record of doing so. I therefore had sight of them only this morning, which means that I have not had time to seek advice. I defer to the member of the European Scrutiny Committee, the hon. Member for Rochester and Strood, and I will raise a few issues that the Minister may be able to respond to. Why were the documents provided so late and what opportunity there is for further consideration of them?

The motion references a number of documents from the European Commission relating to the capital markets union and the action plan to deliver the CMU's objectives, which the commissioner, Lord Hill, set out on 30 September. There is much technical detail in the paperwork for this debate, but I will make some general points. The CMU is being driven forward at a rapid pace by Commissioner Hill and is part of a process of the economic recovery of the European Union as a whole and a contribution to supporting jobs and growth. The initiative's intention, as Commissioner Hill and the Minister have said, is to build a single capital market across the European Union.

The central goal of the proposals, as set out by the Minister, is to make it easier for small and medium-sized enterprises to access funding in a period when finance has dried up from banks. Delivering finance where it is needed is, of course, vital for economic activity to deliver the necessary investment for future growth, which Opposition Members set out as our priority at the recent autumn statement. The Opposition naturally wish to support measures that generate finance for investment, and to support jobs and growth, as would be expected. We want accessible finance to be delivered across the economy, particularly for small and medium-sized enterprises to ensure that they deliver the dynamic and innovative economic activity that our economy needs.

I note that we are discussing this in the week of the recent Bank of England stress test results, when, despite the fact that two banks have to take action to boost their capital reserves, the Governor of the Bank of England stated that the post-crisis period is over. We should recognise the wariness and the real concerns with regards to the CMU and the return to securitisation in the wake of the financial crisis.

The Minister has said that this needs to be done in a

"simple, transparent and standardised way",

but I am sure that she will understand those who urge caution. The recent statement by Finance Watch, supported by a number of non-governmental organisations, states that

"the CMU revives pre-crisis trends without adequately integrating the lessons from the crisis."

It has expressed concern that there is a risk in the CMU agenda of favouring short-term growth and competitiveness over long-term, sustainable development.

To quote two academics, Daniela Gabor from the University of the West of England and Jakob Vestergaard, from the Danish Institute for International Studies,

"if the CMU is to make a substantial and lasting contribution to investment and job creation in Europe, it must be accompanied by reforms that address systemic risk in securities-based financial systems and enhance pan-European supervision of securitization".

The Minister said in October that we need to turn our attention from financial services reform

"to reform that boosts our economies, and increases competitiveness."

Our belief is that, although we wish to boost our economies, we should not consider financial reform to be done and dusted. Indeed, there is the potential for further reform to deliver that boost to our economy. There is a real need to discuss the role of securitisation, particularly as banks have increased their capital and cleaned up their balance sheets and can now lend more, not less. There is no overall shortage of credit supply. Opposition Members—I know that all Members would agree with me—do not wish to see a return to the securitisation that facilitated the US sub-prime mortgage crash, from which the global economic crisis originated. It will be necessary to demonstrate what lessons have been learned as the action plan is developed.

To do that, I hope that the Minister can address a number of points. Will she ensure that the key principles of good securitisation are not watered down through pressure from large, international banks? Will she set out how the CMU will deal with a lack of convergence or consistency in existing supervisory regimes? Do the Government support a new single regulatory or supervisory body for capital markets across Europe?

The Opposition believe that we should be open to a wider range of measures to deliver finance for business and investment, as we recently discussed in the debate on the RBS share sale, including: encouraging increased lending by the private banking sector and using our

[Richard Burgon]

influence where we have direct interest in banks, such as RBS; the establishment of a dedicated national investment bank; and the development of regional banking. Capital markets might be an area for future development in Europe, but UK business remains largely reliant on bank lending. We need to ensure that we do not take our eye off the issues raised in the Lawrence Tomlinson and Andrew Large reports, or overlook the difficulty businesses have had in accessing bank finance following the economic crisis and the bank bail-outs.

The commissioner has said that securitisation under CMU will

"free up bank lending for the wider economy."

Will the Minister say how CMU will affect the steps being taken by the Government to ensure that SMEs can access the finance they require from UK banks?

Mark Garnier: Perhaps I can help the hon. Gentleman. Reducing the requirement for large businesses to borrow money from banks by going to the securities markets would leave more capital in the banks that could then be passed down to smaller businesses. That would shift the big requirement on banks' assets away from big businesses to concentrate on smaller businesses.

Richard Burgon: I welcome that clarification of the Government's position.

Finance Watch has argued that CMU

"is also likely to undermine important financial reforms processes such as the long-awaited separation of risky capital markets activities from basic banking".

Will the Minister respond to that concern and set out what impact CMU will have on bank ring-fencing and the separation of retail and investment banking?

CMU is an opportunity for European finance, but we must maintain the goal of having finance act for the UK and European economies and for the general public as a whole. With Europe rising up the agenda, it would certainly help to be able to highlight the positive benefits to the finance sector that EU membership and the CMU will deliver, but many questions about the proposals still need to be addressed. I will seek to increase my discussions of these matters with members of both the European Scrutiny Committee and the Treasury Committee.

We do not wish to raise any controversy about the information the Minister has given. I am grateful for being allowed to address these issues.

12.2 pm

Roger Mullin: My remarks are also based on having read next to nothing, since I received very little information in appropriate time to be able to study these matters. I have been helped considerably by the Minister's opening statement, which was very clear and helpful. I will restrict my comments to matters she mentioned in her speech and some of the things to which the hon. Member for Leeds East referred.

Everyone would welcome any change that allowed for more effective and better competition than has been the case. From that point of view, I have no great objections to the proposals, although it is very early days before we find out whether we will eventually need legislation or other ways to implement the intended changes. Given the Minister's remarks in her opening statement about concerns regarding the private pensions sector, will she say a little more about that when she sums up? It would also be very helpful indeed if she explained precisely why the Government are not in favour of binding mediation. Again, she indicated that but did not expand on it.

There might be concerns in some quarters about whether CMU is going to help long-term rather than short-term investment. If she could reflect on that and the need to secure longer-term commitment and investment for the benefit of the whole economy, it would be useful.

Finally, I am keen on the idea of creating markets that are more international in nature, enabling the simple saver, for example, to look more widely than the domestic market to save. It would be useful, not least from the Scottish perspective, if the Minister could say a little more about cross-border matters in this area.

12.5 pm

Harriett Baldwin: I thank the European Scrutiny Committee for putting forward this important initiative on capital markets union for scrutiny in this debate. I will respond to some of the points made by the hon. Members for Leeds East and for Kirkcaldy and Cowdenbeath. It is important to re-emphasise that the capital markets union initiative is designed purely to have long-term benefits for savers, for small, medium and large businesses and for investors in hon. Members' constituencies. We must focus on that as the objective of the action plan.

The hon. Member for Kirkcaldy and Cowdenbeath said that he appreciated the simplicity of my opening remarks. I tried deliberately to make them simple, because I know that, even if he gets the materials in time, it can sometimes be hard to see the simplicity in them. However, the concept actually is simple: we want to ensure that a business starting in Leeds East has access to a wider range of funding sources for growth than it does at present. Today, it can go to a small range of banks. As the hon. Member for Kirkcaldy and Cowdenbeath knows, we are trying to expand the range of banks active in the UK. In the five years to 2010, only one new bank started in the UK; in the last Parliament, eight new banks did. In this Parliament, we would like 15 new banks to do so, but we also want businesses in Leeds East and Kirkcaldy to be able to access finances from other sources.

If a venture capitalist in Estonia wants to put money into a high-risk but exciting investment in Kirkcaldy or Leeds East, we want that to be feasible. The capital markets action plan is about trying to make it easier by having common rules, so that a saver in Bulgaria can save through a peer-to-peer lending platform started in the UK. All those kinds of thing will help people, businesses, savers and investors, and that is the vision that can sometimes be obscured behind a lot of acronyms.

I appreciate the support that Members have articulated for the principles we are aiming for. I reiterate my apology to the Committee for the fact that the Government's support of the action plan is so wholehearted that things have moved more rapidly than anticipated in the sometimes slow-moving corridors of the Commission.

Therefore, we inadvertently went faster than we should have done before the scrutiny of this Committee, which we value so much. In addition to apologising for that in a letter to my hon. Friend the Member for Stone, I have personally telephoned him to offer my humble apologies for the fact that, on this occasion, things in Europe went faster than we anticipated. We will try to prevent that from happening again.

The hon. Member for Leeds East also asked about the second letter that we wrote, and the fact that we have now discovered some justice and home affairs issues to do with the file. In their briefing, my officials said that that was entirely their fault, but I am happy to take all the blame myself. I am sure that the Committee, in considering the files initially, would not immediately have thought that such a measure would have justice and home affairs implications, but they arise from the fact that some of the 28 countries of the European Union have a criminal approach to securities fraud that is not necessarily the same as the UK's. When we did the ministerial write-round, it was brought to our attention that there were some justice and home affairs issues, which is why we have written to the European Scrutiny Committee. We welcome the Committee's thoughts on whether the UK would be well served by opting in, or whether the UK should exercise its opt-out. The briefings that we have seen do not show a clear impact on the UK one way or the other, so it would be interesting to hear the Committee's views.

The hon. Member for Leeds East mentioned the Bank of England's stress test this week, and there are reports from the Financial Policy Committee. I hope he welcomes, as I do, the new rigour in that process. We now have a Financial Policy Committee looking at the potential for the build-up of risks in the system. It looks closely at the characteristics of lending to businesses, to buy-to-let investors, to people who want to buy a home, and so on. There is close scrutiny of what is happening and of the impact on banks' capital bases were a shock of a particular kind to happen to the world economy. That important improvement to the regulatory system in this country is a result of the changes we made in the last Parliament.

The hon. Gentleman also asked about the UK's position on supervision. We learned the lesson from the financial crisis that having the supervisor as close to the markets as possible is an important part of a regulatory regime, which is why we have given back that responsibility to the Bank of England. The Bank is closest to the day-to-day goings on in the market, and it can observe problems earlier than anyone else. We believe in subsidiarity on supervision, which is an important principle. We will fight those who think that there should be a pan-EU supervisor, because we think that would create far too much distance from what is actually going on in the real world.

The hon. Gentleman also said that he does not think that there are any credit supply issues; I beg to differ. It is true that we are now seeing improvement in small-business lending, which has reached positive territory, but he will know how difficult it has been for small businesses to access finance over the past five years. He will also know that small-business lending has benefited from a range of policy measures, such as the funding for lending scheme and the British Business Bank's ENABLE scheme. He will therefore appreciate that, although things look as though they are beginning to improve, it still makes sense for us to consider other ways in which we can improve access to finance and improve competition so that small businesses can secure extra funding in order to grow.

The hon. Gentleman also asked about ring-fencing, and these initiatives will not have any impact on UK legislation. The Financial Services (Banking Reform) Act 2013 is on track to implement ring-fencing in the UK, and he will know that the European Union has not yet come up with an agreed pan-European approach. We are continuing to implement our own approach.

I was also asked about private pensions, and obviously the UK has a much more developed private pension market than some of the other 27 EU countries. There are extensive differences between each country, and we therefore see many obstacles to implementing any kind of cross-border pensions system, particularly with regard to the harmonisation of tax treatment, which is rightfully a member state competence. However, there are some initial suggestions for a potential opt-in to a common approach for people who work in different countries across the European Union over their lifetime. We retain an open mind on that approach, but we would be very resistant to anything that in any way undermines the UK's approach to its private pensions sector.

The hon. Member for Kirkcaldy and Cowdenbeath asked why we object to binding mediation. We think it would be a real risk to the UK's sovereignty if things were to be put into binding mediation too soon, so we want that to be a last resort. That is the kind of compromise that we have reached. He asked about long-term investment, and there are other initiatives in the capital markets union action plan on investing in infrastructure and on ensuring that lessons are learned from regimes such as ours in the UK, where insolvency works well, to allow wider infrastructure investment in parts of the EU where significant improvements could be made to insolvency regimes. There are also initiatives on venture capital and simplified prospectuses so that businesses can access capital markets more easily. Those are some of the other examples in this file of the kinds of things that will help long-term investment.

I hope that I have been able to address the many points raised by hon. Members and that the Committee will support the motion noting our support for

"the Commission's efforts to ensure that the Capital Markets Union action plan supports jobs and growth, and in particular…helping small and medium-sized enterprises…get the funding they need to grow and succeed".

Question put and agreed to.

12.16 pm

Committee rose.