Minutes from dialogue meeting:

Financial Services Authority / Occupy London

Wednesday 7th December, 5.15pm - 6.15pm
at St Ethelburga's Centre for Reconciliation and Peace

--

[Paul Wilson]

Welcome everybody, this is an important event. I'm sure everybody in the room hopes it's not a one-off event and that it leads somewhere. We hope to communicate, to listen, to understand, to see where it can take us. Not only with Mr Sants, but with everyone. If you haven't been here before, we call this tent our mutual space. People of different ideas and opinions come here. We can all sit around at the same level - there is no hierarchy here.

This may be different to other occasions, this is more formalised and structured. We have things people want to say and hear. I've been asked to keep this show on the road, to chair the meeting. I'm not talking about facilitating - that's for dialogue, this is not straightforward discussion.

However, the main part will be straightforward question and answer. Mark will be helping to ensure that questions are able to flow and can be managed. I want to pause here, because there are techniques that Mark and I have talked about and Mark is going to introduce to you now.

[Mark Weaver]

You guys from the Occupy movement will be familiar, if not bored rigid with this. This is the way we communicate without interrupting each other. I encourage people not from the Occupy movement to get involved, when we get into questions. If people have things they wanna say, they put there hands up like this. If someone says something you agree with, wave your hands. If you disagree strongly with something, wave your hands down. If someone is going off-topic, or repeating themselves frequently then roll your arms - with a polite tone. We're trying to help rather than insult each other.

I don't think we need to talk about blocks because there's nothing here going to consensus. If you happen a horse walking outside the room, you might want to make a technical point.

For a clarification, do a little ‘c’ with your hand. Don’t be shy, try them out and we’ll all start doing them. The important thing is to actually use them.

[Paul Wilson]

We have just an hour, we may be of by the six-fifteen deadline. It would be helpful to introduce ourselves. The photographer from the cathedral will take photos during this part.

[Introductions]

> Paul Wilson, Interim Director for At Ethelburga’s.
> Justine Huxley, from St Ethelburga’s.
> Helen Gilbert, from St Ethelburga’s.
> David Dewhurst, from the Economics Working Group at OLSX.
> Mark Weaver, a full-time Occupier.
> Jonni, part-time Occupier, taking minutes.
> Tanya Paton, full-time Occupier, in the Multi-Faith Working Group.
> Mark, been with Occupy since the beginning, support Tanya at Multi-Faith.
> Richard Paton, part of Occupy movement.
> Peter Dombi, work on the Economics Working Group of Occupy.
> Emma, been living at the Occupy camp for 5 weeks.
> Karen Barclay, from the Financial Services Authority.
> Hector Sants, CEO, Financial Services Authority.
> Ken Costa, chairing the London Connection.
> Richard Chartres, I helped to build this tent, Bishop of London.
> Anesu Nicholas, Manonga-Blackwell, part-time Occupier, Corporations Working Group.
> Robert Gordon, from St Pauls Institute, taking minutes.
> Ben Frankel, work with the Bishop of London.
> Kirsty Clay, from the Financial Services Authority.
> Akira, from Occupy, Church Liaison Working Group.
> Alastair Alexander, from Occupy.

[Paul Wilson]

To confirm if you weren’t here - Rob and Jonni will be taking notes, will confer and produce an agreed version of the notes. Other people taking notes, that’s fine.

Three domestics - do not put coats back here as it could set fire to the shelf and that would be unpleasant. The toilets are through the glass doors, then wooden doors. There is another meeting taking place in the church - we have have to respect other people's space as well. Thirdly, turn off phones or put them on silent. No audio recording, this meeting will be recorded in the way we've agreed.

[Hector Sants]

Thank you for inviting me. I thought i might take a few moments to outline the role of the FSA, and tell you a bit about what our current agenda is and what some of the issues on your mind might be. I'm not fully aware of the questions on your mind, I will make comments on anything you want, and will be conscious not to be too technical. If you want me to elaborate or explain anything that's fine.

From the FSA's point of view, we're a body set up by parliament, our role is to oversee the financial system, to ensure stability and that users feel the system is treating them fairly. It's important we engage with everybody who feels they have views on the financial marketplace. I'm interested in your thoughts.

I'm conscious of the general attitude; that the financial system does need to change. We start from the premise that change is necessary. We are coming into a debate and the way we go about our work that says change is necessary. The type, scope and degree of change we can all talk about.

More about the FSA - we are a public sector body, we are accountable to parliament. Our powers, and what we are seeking to do, are ascribed by parliament. We are not setting our own goals. Our role is to discharge the mandate that parliament gives us - to keep the financial marketplace stable, and make it work for everybody, the whole of society, and not just for the market participants.

Nowadays, we're part of the EU. Much of what we do is part of the EU process. You need to understand that in financial matters the UK is not financially autonomous - many rules are set in Europe and by international committees.

Our current agenda, in relation to the stability of the system, is as a result of what's occurred over the last few years - lot's of changes will be necessary. We're trying to improve stability, firstly by reducing the probability of major financial institutions and banks failing in future. Secondly, and more importantly in the wider community, in the event that failure does occur in future we want to make sure it doesn't cost the taxpayer money. We are considering certain measures to achieve that through our own rules and procedures, and the government has a set of rules set out by the Vickers Report to achieve the same goals.

We are making good progress in respect to that, but that agenda will not finish until 2018, so it's not possible to judge how effective measures will be. We're part way through, but sometimes people underestimate how long it takes to engender change in financial systems. It's important to understand we are closely engaged in that agenda.

What will the change look like? Banks will be safer, less likely to fail, required to hold more capital. There will be mechanisms so that if they do fail, they will do so in an orderly way. The profitability of banks will fall, as a consequence of having to hold extra capital. Their inherent profitability will fall - We've already seen that over the last 12 months.

It also means that the surpluses they generate will be smaller. Many people feel the rent they've extracted, so to speak, has been excessive for the service they've provided. It's important to recognise that their profitability will decline in light of changes. How will that surplus be divided up in future is a question - it's certainly the case that the share to employees will be reduced. I think that the share that goes to people who provide capital should be increased, so the percentage share available to the wider community would also increase, so distribution would go further.

To be clear, the FSA was not set up to regulate and control the compensation that goes to individuals, we are not a pay regulator. It's not our job to decide whether banker 'x' is paid 'y' - our job is to ensure that banks have sufficient capital. You heard in the Chancellor's speech yesterday, that the Bank of England has recently set up a Financial Policy Committee. It has said that if banks cannot increase their reserves in the current market, then they should limit distributions in order to increase capital.

Those are the main changes I expect to see in future, I also expect to see general business model changes.

At the end of the day I do not think regulation by technocrats based on capital ratios and other rules will be sufficient to achieve the change I think society is looking for as a whole. In order to achieve that change I think there needs to be a change to behaviour and culture in institutions and individuals as well as the rules that govern institutions. Changing behaviour and culture is a goal that all society needs to achieve and be a part of. I will be interested to hear your thoughts.

We need these changes in addition to the changes that an organisation such as the FSA can make. I would like to pause here to hear your thoughts and answer any questions you have?

[Paul Wilson]

Thanks Hector. You've given a good introduction of the issues. We've identified three general questions. May I ask the first question, arising out of that?

[Tanya Paton] We would like to ask our own questions, if that makes sense?

[Hector Sants] I'd be happy to hear them.

[Mark Weaver] How much time do we have for questions?

[Paul Wilson] We have thirty minutes, if you're happy with that?

[Hector Sants] It's your meeting and if I feel I am able to answer, I will. If not, I will certainly explain why not.

[Mark Weaver]

This is a big topic, and we've only got a small amount of time - please keep your questions and answers as brief and concise as possible.

[Anesu Nicholas Manonga-Blackwell]

As the FSA, is your role to regulate for the benefit of the consumer? How, then, were banks who were too big to fail allowed to become existent?

[Hector Sants]

Good question. There's a general recognition that the approach taken to regulation before the crisis has proved to be unsatisfactory - we've written various reports - we're clear that the approach taken by regulators around the world and the FSA was one of them, has not delivered results that consumers and society would like.

It was a hands-off approach, with the general expectation that markets were self-regulating and could be left to their own devices, and would deliver the best results for society. Events have demonstrated that that wasn't the case. The new approach is firmly more interventionist - before things go wrong, not after. The old approach didn't work - things should, and are, changing.

[Alastair Alexander]

You touched briefly on remuneration, and the deeper issues of the structural pay approach of banks. If your remit is to preserve financial stability, remuneration is inherently linked to turnover and profit for banks - could it not also be said that they have a systemic impact on the wider economy, and therefore in your interests?

[Hector Sants]

Yes and yes is the short answer. You're absolutely right. When I say we're not a pay regulator, we can't say that an individual person can't be paid more than 'x'. We do have responsibility to maintain stability, and therefore we do have the remit to make sure that the way pay is calculated doesn't encourage behaviours that put institutions at risk by reckless, irresponsible management practice.

We need to ensure that the methodology used for calculating payment, if the bank proves not to be correct, that the bank can claw the money back. We recognise that these types of issues were not being addressed. The FSA is at the forefront, introducing a new set of rules which ensure that banks use metrics specifically linked to responsible management practice, and that the majority of pay for high earners is deferred - if subsequently there proved to be illusory profit, it can be clawed back. You will have seen recently the reports about potential individual bonuses being clawed back.

There are a new set of rules that effectively do that, that we do enforce, but they've only been in place for a year.

[Alastair Alexander] Do you have scope to be more robust on that?

[Hector Sants]

There's a new committee that I'm on, the FPC, that made some observations in a recent publication. We reflected that there's potentially too much reliance on the return of equity - it's not a good measure. We're committed to looking further into this and improve metrics, so they are more closely linked to accountable risk management practices.

[Mark Groves]

We applaud your articulation of good intentions. What chance have you actually got at doing this? Andrew Haldane has been pushing the line for a while now, to really push down remuneration to three million - is there any chance to go beyond that? How will you actually be able to drive that through, if perhaps some people are not on the same side as this?

[Hector Sants]

We have already done a lot and will put in place a clear regime which makes sure rewards are linked to responsible risk management practices, and money is not paid out that was not genuinely earned. I'm confident we've made good progress and can make further progress on regulations that encourage responsible behaviour.

As I have said, the FSA doesn't have the power to limit individuals' payments - that is a public policy matter for parliament to decide, not for an unelected regulator. I think aggressive bonuses will come down in total as profitability will come down because of these measures.

[Mark Weaver]

The reason I'm sat here is to help us take turns to speak. Please make a direct point, by pointing two fingers upwards, if you have a direct response to something said at any point. I will allow you to do this, but you occupiers know how much of a slippery slope this one can be if not used properly.

[Peter Dombi]

To follow on pay levels - in the annual FSA report you say that pay is set by shareholders or democratic process. Would a body like the FSA be appointed to do this? Second, you say shareholders - I'm a shareholder - I know when I voted that we're often ignored, and it's not even binding. For most of the shares I've got a body holds the shares, trustees of the bodies do the voting, and they're friends with the people who run the business - shareholder democracy doesn't exist.

[Hector Sants]

There are limitations on what we can expect in terms of shareholder engagement. Individuals who hold their shares through pooled vehicles, find it difficult express their opinions. If you are a pensioner and hold shares in a pension fund, however you can express a view to the trustees.

The ABI have picked up on this and other issues and have written to banks expressing strong views that they expect pay to come down in the current pay round.

I think institutional shareholders should take a far more active role in ensuring responsible management in the round - by saying they're supportive of responsible practices at an institutional level. There is a group that could effect change here. I accept that it's difficult for individuals but big insurance companies and pension funds can effect change. Their managers should be more supportive of this change. I'm supportive of the ABI's agenda here.

[Peter Dombi]

How can we make this happen? This has been argued for for a long time, but that change is not happening.

[Hector Sants]

This would come through the changes in obligations placed on pension funds. One possible way would be further changes to recognise the importance of contributing to the wider social agenda, not just shareholder value. That would be a government based initiative. Trustees of pension funds who place value in these institutions should be more active.

[Tanya Paton]

I'm not an economist; I'm not clued up on FSA regulations. There are a couple of things I want to ask about. You said that the FSA's role is to provide stability, but you've failed to do that all the way through. Why should anyone believe the FSA will make any difference, when they dismally failed at what they set out to do?

With bailouts, when the banks are back in profit they do not give the money back to the taxpayer. Privately owned companies are being bailed out because of the effect they would have on the economy - when they're profitable again they are not paying money back to the government and taxpayer.

Perhaps the FSA should be lobbying to change the laws on this. The FSA is not a body independent of the financial institutions it's regulating - it's paid for by the industries it's supposed to be regulating. How does it detach itself from who it's serving? Who is it serving at the end of the day?

[Hector Sants]

The current government has made a decision to change the regulatory structure in the UK. The FSA is being replaced, in due course, by two bodies, and some powers will be transferred to the Bank of England. This was decided by the government in light of recent events so we are not talking about the FSA continuing into the future.

How will the new regulatory structure do a better job, after the FSA? The FSA is an unelected public body that executes the will of parliament. In the period prior to '07 the general mood, international climate and clear direction - read Brown, Balls speeches - was the phrase, (and I must say that the FSA didn't use) - "light touch regulation". The premise was that regulators leave the institutions alone and only intervene after the point of failure - they didn't do a great deal about preventing failure.

This was the prevailing international climate. The FSA didn't have a financial stability agenda or objective before 2009. The FSA wasn't doing what you think it should have been doing, because it didn't think it should be doing what you think it should have been doing. They weren't failing to do something - they didn't believe that that was what they should be doing.

Regulations have already been changed by parliament. The FSA has a new objective for financial stability, and some functions will be moved into the Bank of England in due course to deliver that agenda - the agenda has been changed. Whether you believe that people execute what's being asked of them - I believe the FSA is staffed by effective and competent people. Since 2007, I have significantly changed the approach of the FSA. We have a third new staff and none of the senior executives involved in the supervision of large UK banks pre the crisis, work at the FSA today.

We have also changed the rules and objectives. It's reasonable to expect that we should deliver against this new agenda. Will taxpayers get their money back? That will remain to be seen. The government has the responsibility for this, not the FSA. Possibly, the money may come back, if bank shares are sold at the right level.

Your wider point - how do we ensure that these circumstances don't happen again? That comes back to ensuring that a bank can fail in a way that it can continue to provide a service, without the taxpayer putting in fresh money. I believe we have made significant progress for small and medium sized banks, but it will require global cooperation for larger banks. We have made a lot of progress here too.

[David Dewhurst]

Who pays for the FSA?

[Hector Sants]

We levy a fee on the industry to fund ourselves. We basically devise what our budget is and then levy the fee. There's no evidence at all that the fact we're funded by the industry not the taxpayer compromises our delivery. I can assure you the FSA is not compromised.

[Richard Paton]

As far as I understand, thinking about socially responsible risk management as opposed to risk bearing, there's no agreement on a metric to differentiate socially useful and socially useless banking. Nothing in your agenda addresses limited liability or bonuses - the overall compensation ratio that drives bankers to pursue shareholder value in pursuit of long term gains. Shareholder value means things are done with impunity.

How can the Vickers report or reform touch on such a big issues. I think it's an issue of politics, democratic disconnect - I see the industry has a well-organised and well-funded city lobby, one party is mainly funded by the financial industry and have a compliant media, and the other party isn't really challenging the issues.

If you want to know why tent cities are appearing all over the country - what are we supposed to do? Technocrats you may be, but it's not just an issue of legal or moral mandate, it's an issue of moral leadership - are you going to take the side of moral society, and not be in the pocket of the elite?

[Hector Sants]

I agree, Vickers doesn't tackle all the points you raise - the focus is on too-big-to-fail organisations and questions of compensation. We are trying to tackle the points you raise. We have already looked into risk-based metrics and we are requiring remuneration committees and boards to use these when determining compensation and individual payouts.

As Andy Haldane said, we should do further work in these areas. For example, that a return on assets is a better measure than return on equity. We need to do more work in this.

I think that there are many things that people do which people find acceptable, which may or may not be socially useful. We try to say, is it economically useful, or economically not useful? Many things to do with finance are more about economic value than real economy. It's a really interesting question.

Take a look at the latest financial stability review by the Bank of England. Part of the problem is that there's too much leverage in the financial system. We need to deliver a less risky system, but do so in a way that doesn't damage the real economy. We need to work out which bits bring real value.

The short answer is that we are committed to doing that some work on that, and we will be returning to that in the coming twelve months - you can expect more from the FSA and the Bank of England and discussion material will be published in the coming months.

As for the question of delivering mandate and leadership, I think the FSA has a clear role to be seen as a champion of a socially fair financial system, acting in the interests of everybody, not just banks. Clearly this is a democratic country, and we're not the government - certain decisions should be made by democratically elected officials. We're not shirking our responsibility, but it's just not for us to move outside our mandate from the democratic process. This requires you to influence and inform the democratic process.

[Akira]

Talking about banks holding more collateral - are you looking at issues of fractional banking and that mindset?

[Hector Sants]

To a point, yes. The cultural mindset covers what the purpose of the institutions and banks are - there's been too much emphasis on employee return, and not enough on the wider social agenda. Behaviour touches on a number of issues. Inherent in the banking model is an element of risk - banking is inherently risky. We should never think we can set up a system where banks should not fail. We should be trying to reduce the severity of crisis when banks do fail, not to set up a model with no risk. Without risk, there would be no capital transmission, no opportunity to redeploy resources in a more efficient way - we need a system that helps distribute capital.

[Akira]

Fractional reserve banking is not sustained on sustainable value.

[Hector Sants]

That's a matter for debate.

[Mark Weaver]

If it's a lengthy debate, let's move on to the next question!

[Anesu Nicholas Manonga-Blackwell]

Pension fund managers and trustees - their point of being is to deliver a return for the pension trustee, so they encourage banks to make riskier investments to encourage returns. You want your return to be sufficient enough to pay out to shareholders. The idea of shareholders providing remuneration doesn't work for me. If I held shares, I would tell the guy that you can take a million, as long as I keep five percent dividends, annually or quarterly.

Why not go towards a more competitive banking industry? Now, banks can just go as they like. Why not link bank interest rates up to what they borrow from the government? The borrow 3% from the government, and they make 17% - they make vast sums lending. If you bring these rates down you will make the system more competitive.

[Hector Sants]

There are a number of good points there. On the shareholder point, absolutely - there is a limitation on what we can expect from shareholder actions. They have a responsibility to their clients to make a return, and therefore they are always going to have the option to sell their shares and walk away. It's not the same as being a long-term owner who feels entirely committed, so they can't sell and walk away. There are limitations to what institutional investors can do.

An earlier point, that the institutions need to learn from experience and events of the last few years, as do regulators and government and managers of financial institutions. One thing is obvious, if institutions that failed had distributed less to employees, they may not have failed - you can do interesting simulations, and see that, if there hadn't been such high distributions they may have had sufficient capital to ensure failure

didn't occur. Giving thought to what has happened, it does require people to have learned that lesson - if people haven't, they can't have confidence that things are going to change.

Part of the role of the FSA is to make clear we should be learning these lessons. The FSA is not a competition regulator but we do favour more competition in retail banking.

[Anesu Nicholas Manonga-Blackwell]

If the role is to be pro-consumer, and that involves encouraging competition, then you do have some sort of mandate?

[Hector Sants]

We have argued for our successor to have a much clearer and more forceful mandate and powers to deliver that - the financial regulator of the future should, in my view, have more competition powers.

[Paul Wilson]

We only have three minutes left for this question and answer section.

[David Dewhurst]

There are only about twenty more question I want to ask! When you mentioned the break-up in banks, what chance do you have about breaking up multi-national banks, so that they are no longer too-big-to-fail? If you can't do that, the metaphor might be spitting in an ocean.

[Hector Sants]

You're right that there are limitations on what a national regulator can do. We have authority over those banks that are domiciled in the UK. A large number of banks with operations in the UK are not UK banks. We have very limited powers over those institutions, so sustained reform globally will require global determination by the global regulatory oversight committees. You get varying degrees of commitment to that. There has been a lot of progress, but unless there is continued momentum on the main global agenda, the UK change alone will not be able to affect the full degree of change needed.

[Peter Dombi]

What are we doing about the regulation of hedge funds?

[Hector Sants]

The focus on the regulation of hedge funds is to ensure they can't put the stability of the system at risk. The UK, unlike other regulators, was the first to regulate hedge funds. Hedge funds based in the UK are registered to ensure that they don't put stability at risk. In the recent crisis hedge funds weren't the problem and we do regulate them here. There are hedge funds elsewhere that are less well regulated.

There is an international project chaired by Lord Turner, looking at shadow banking. If you squeeze and put pressure on a regulated sector, lots of risk migrates outside that sector. The authorities have to address the shadow banking problem as well.

[Paul Wilson]

Hector, thank you very much. I don't think I've heard anyone speaking so openly.

[Hector Sants]

Of the many things people think of me, I'm sure they think I'm honest.

[Paul Wilson]

I think this 40 minutes has just been the start - and the answers to these questions will grow and develop.

[Mark Weaver]

I haven't really had enough time to get as many questions asked as I'd have liked to - I apologise for that.

[Paul Wilson]

The next agenda point - what next? The last question of how the public can be involved - there's the democratic process that probably governs the whole of financial regulation.

[Hector Sants]

Hopefully You have learned through our discussion this evening, that we are alive to the questions you pose. I would like to say that all of your questions were thoughtful, and you have demonstrated considerable knowledge. But a number of questions do require either global action or leadership from the parliamentary, democratic, government process.

I would encourage you to try to engage with these arenas. In addition to the UK democratic arena, we do have a treasury select committee. This is a body of back bench MPs charged with the oversight of the financial system - you could engage with them. I encourage you to look at other avenues to engage with this process. The tone has been set by the newly elected government - to get the tone changed, start at the top. We can reflect, continue to give feedback as to what we're up to, and can give you more info.

[Tanya Paton]

Occupy generally, in terms of the movement, would like to hear what you have to say. We would like to invite you, if possible, and we do appreciate this hour, if there is any chance in your schedule in the near future, you would be welcome to come down to Occupy and talk to us.

[Hector Sants]

I will take away your offer and reflect. I think it's important that the FSA and my senior colleagues listen to your questions, but equally, we don't want to be seen as trying to generate publicity for the FSA. But I will reflect on what you say.

[Tanya Paton]

Lot's of people would like to engage with you.

[Mark Weaver]

I would like to see people from your end asking us questions - it seemed to me as a facilitator, I haven't experienced a discussion in one direction like this before.

[Hector Sants]

I'm immensely impressed by the quality of your questions.

[Paul Wilson]

Where does this go? St. Ethelburga's Institute can give any help here with people trained and expert in dialogue and facilitation, in the guise of not only straightforward question and answer, but meeting for progress of thought in a number of different sites. If there is movement on our degree of involvement in this, I'm looking at a small group coming together to make that happen. That offer is open to everybody around the room.

Over the last few days press releases have gone out. The press are very interested in having this happen. Press releases will go out - I'm not suggesting that we have a single press release. Please let us know if you are putting a press release out. We've been caught out over the last few days with people putting out a press release without us knowing.

[Tanya Paton]

None of us here are from the Press Team at Occupy.

[Paul Wilson]

I'm sure that people would like to make comments. This has been stimulating, a unique sort of evening. I'm not sure you've had anything like this before. I'm going to close it there as we're already running two minutes late. Thank you very much for coming.

CLOSE