STATES OF JERSEY

GOVERNMENT PLAN 2020–2023 (P.71/2019): SIXTH AMENDMENT (P.71/2019 Amd.(6)) – COMMENTS

Presented to the States on 21st November 2019
by the Council of Ministers

STATES GREFFE

COMMENTS

The Economic and International Affairs Scrutiny Panel proposes the following in P.71/2019 Amd.(6) –

1 PAGE 2, PARAGRAPH (c) –

After the words "of the Report" insert the words ", except that in Summary Table 3(i) the Head of Expenditure for the Office of the Chief Executive shall be reduced by £150,000 on the basis that a Financial Stability Board (as described on page 60 of Appendix 4 to the Report) will not be established, with other affected lines in Summary Table 3(i) to be updated accordingly".

2 PAGE 3, PARAGRAPH (i) –

After the words "Appendix 4 to the Report" insert the words ", except that on page 60 of Appendix 4 the action entitled "Establish a Financial Stability Board" shall be deleted".

The Council of Ministers opposes this proposal and urges States Members to reject the amendment.

Jersey needs a Financial Stability Board to help protect the Island from the sorts of underlying threats to our domestic economy that resulted in the 2008 global financial crisis. The Board will be essential to understanding the total indebtedness of our economy (mortgage and credit card debt), stress-testing our institutions (whether they are able to withstand extreme financial shocks and continue to support the economy), and contingency planning (assessing what might destabilise our economy, and how we can protect Jersey against those threats).

The Government stresses the argument in the Government Plan that '*The continued success of the financial services sector in Jersey is dependent on financial stability, which in turn is subject to an unusually wide range of risks not limited to the constitutional position with the UK, exit from the European Union (EU), international legislation and policies for off-shore jurisdictions in addition to the tensions ever-present in any financial sector e.g. banking and depositor crises with moral hazard and the costs to any sovereign state in supporting it*'.

The existing governance to address financial stability is incomplete. As the 2011 'Boleat report' states '*The JFSC has the normal responsibilities of a financial regulator, but these cannot extend to complete responsibility for handling financial stability issues. There is no person or agency with explicit responsibility either for assessing threats to financial stability or for handling a financial crisis. By default, responsibility rests with the Chief Minister's Department, but there is no common understanding of this position*'.

The financial crisis from 2008 revealed grave weaknesses in the governance of the UK financial system between the Bank of England, Financial Services Authority ("FSA") and Her Majesty's Treasury. This was reflected in inadequate monitoring of risks to financial stability pre-crisis, poor contingency planning for any crisis and co-ordination failures in policy and decision-making to address the outcomes of the crisis. These failures led in due course to fundamental reforms that saw the Bank receive authority for micro-prudential supervision and regulation, along with an explicit role for macro-prudential supervision and policy.

The Bank of England's Financial Policy Committee ("FPC") was established in 2013 as part of the new system of regulation brought in to improve financial stability after the financial crisis. The FPC identifies, monitors and takes action to remove or reduce systemic risks, with a view to protecting and enhancing the resilience of the UK financial system.

Whilst in theory the policy objectives for the Financial Stability Board might be allocated to Jersey Finance or the Jersey Financial Services Commission, there is a risk of conflict of interest, which should be avoided: Jersey Finance exists to represent and promote the finance industry, and so is not best placed to manage financial stability risks, e.g. to the industry and the externalities, e.g. risks to the Island and its taxpayers; JFSC's regulatory objectives focus on micro-prudential authorisation, regulation and supervision of individual firms. Moreover, Jersey does not have an explicit Lender of Last Resort ("LOLR") responsibility that in the UK is, in the first instance, constituted with the Bank of England, though ultimately the LOLR is the sovereign or state.

As the Boleat report notes '*Ownership of financial stability issues must be clearly established. The JFSC has a major role to play but ultimate responsibility must belong, and be recognised as belonging, with the Chief Minister's Department. The Chief Executive of that department should either take on that responsibility himself or identify the holder of a particular office to have that responsibility. Similarly, political responsibility must rest with the Chief Minister.*'

It is crucial to recognise that financial stability with macro-economic and macro-prudential objectives is fundamentally different to regulation, and the experience in the UK through the crisis with the shortfall between regulation, monetary policy and the Government objectives makes a strong case for a new body. The FSB would draw on the experience of Lord Andrew Tyrie as Chair, and other members of the Board, including those on-Island, to provide an additional and complementary resource to promote financial stability and the economic interests of Jersey.

The costs of financial instability and consequent crises are very large. This means that the investment to reduce the likelihood of such crises and improve the capability of Jersey to address them, should they arise, is essential. Existing resources within Jersey Finance and JFSC are already committed to delivering different objectives, so it is not a realistic or cost-effective proposal to reduce their funding to enable the establishment of the FSB.

The Council of Ministers urges Members to reject this amendment, and maintain a relatively small investment to help safeguard Jersey's relative prosperity.