You have asked that I set out the Government’s position on a number of the recommendations of the Parliamentary Commission on Banking Standards ("the Commission") which do not require legislative action. I have addressed each of these in turn below. You will, of course, be aware that many of these recommendations are specifically for the regulators, and in these cases the positions I have set out below are my views.

**Regulatory Decisions Committee and enforcement decision-making**

The Commercial Secretary to the Treasury has written to yourself and Lord Turnbull explaining our commitment to conduct a high-level review in 2014 into enforcement decision-making.

**Special Measures**

We have explained through our response to the Commission’s final report and the recent House of Lords debates on the Financial Services (Banking Reform) Bill ("the bill") that the regulators already have the necessary powers to take the sorts of actions recommended by the Commission, if they believe this is appropriate. I understand that both the PRA and FCA have written to you to commit to issuing policy statements on their approach to addressing the systemic weaknesses of leadership, risk management or control within a business as envisaged by this recommendation.

**Remuneration Code**

The PRA and the FCA will be reviewing the Remuneration Code in 2014, following consultation. Andrew Bailey has written to you to explain the PRA’s plans for updating the Remuneration Code on the issue of deferral periods. The PRA will also review the use of clawback to recover vested remuneration.

During the passage of the Bill through the House of Lords, Lord Newby confirmed that the Government will work with the regulators to ensure that the Code takes full account of the views of the Commission, and is content to continue to engage with former members of the Commission as the regulators work towards and consider their review.
Mis-selling at the point of sale
The Government agrees that it would not be appropriate for regulators to use their powers to find a firm, or its senior managers, guilty of a breach they could not have possibly foreseen. The regulators are clear that when a problem emerges they are only able to enforce against the rules and principles in force at the time the transaction took place and do not interpret rules differently with hindsight. I am aware that the FCA is planning to use the work it has carried out on the perceived expectations gap between regulators and industry to better understand any concerns surrounding retrospective action in the first half of 2014, which Martin Wheatley has written to you separately on.

FCA to embed robust pro-competition culture and recommendations on authorising new entrants and alternative providers
The Government agrees with the Commission’s recommendation that the FCA must embed a strong competition culture. The FCA is building its competition expertise and capacity, including a new competition function, and training for staff across the institution. On new entrants, the FCA is doing a further review of barriers to entry in banking – along with the PRA – this spring. It is also consulting on how to best regulate crowd-funding and peer-to-peer businesses; and will report to Parliament on diversity in the retail banking market within four years.

FCA to consider incentives for banks to respond to complaints appropriately first time
Encouraging banks and other financial firms to manage complaints fairly is an important issue and one that is being taken seriously by the regulators. As the FCA has explained in their response to the Commission’s final report, it is already considering a number of options to incentivise firms to improve complaint handling as part of a wider review and expects to report in 2014.

PRA Principles to include requirement that firms must operate consistent with their safety and soundness
The Government is clear that the rules for banks must ensure that they preserve their safety and soundness, and that maintaining the stability of the firm is an important way that directors work in the best interests of shareholders. The Government has asked the PRA to consider taking forward this recommendation. In its response to the Commission’s final report, the Bank of England confirmed that it would consult on such a requirement.

Whistleblowing
The Government considers that there is no clear reason to take a different approach to whistleblowing in the financial services industry than elsewhere and, in line with the response to the PCBS, we will consider the Commission’s recommendations in the context of the cross-sectoral review of whistleblowing by BIS.

Regulators to consider a role for former senior bankers
Both regulators already have Senior Advisors who draw on their significant experience as senior executives in the financial services industry and provide an internal consultancy service, giving insight and guidance on market trends, firms, policy, procedures, staff development and other issues on which their input is asked.
Separate set of regulatory accounts

The Government agrees that regulators must have access to the information they need to carry out their duties effectively. In response to the recommendation by the Commission that this could be achieved through non-EU mandated regulatory returns being consolidated into a separate set of accounts, the Government asked the PRA to work with other authorities to review the nature of information required to achieve this and bring forward recommendations.

The PRA agreed to review this proposal while taking into account the new EU mandated regulatory returns of the Capital Requirements Regulation (CRR), which will make considerable changes to the current regulatory reporting framework.

I hope this letter has provided a helpful clarification of the Government’s position on these matters.

Best wishes,

GEORGE OSBORNE