



BANK OF ENGLAND

Open Forum 2015

Key themes and
next steps

Role of financial markets in the economy



Key theme

There was a clear recognition of the importance of financial markets to everyone's lives. But there was also a lack of trust in financial markets and institutions because of misconduct and a perceived lack of customer focus.

Next steps

- This mistrust reinforces the importance of individual accountability, which is the focus of the Fair and Effective Markets Review that will provide an implementation report by June 2016, and also the Senior Managers Review which comes into force in 2016 Q1.

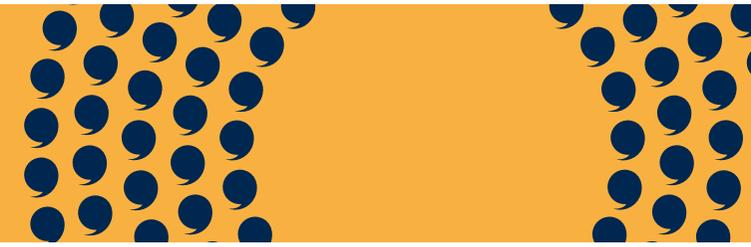
Key theme

There was appetite to hear and know more on the role financial markets play in supporting wider society, but greater understanding required a sea change in engagement with the public including through less use of acronyms, simpler language and listening to those outside the City.

Next steps

- The Bank of England will look to build on what was learnt at the Open Forum to make sure we talk and listen to a broader set of stakeholders across society when we design and implement policy. This includes shifting our communications towards digital and social media, and making more use of regional fora to explain what actions we are taking and why.

Impact of regulation on financial market resilience



Key theme

Regulatory reform was a continual effort that would need to continually adjust in light of innovation in the financial sector.

Next steps

- We need to ensure that any future adjustments in regulation are based on improved engagement with the financial sector and a wider range of stakeholders across society. The Bank of England will look to build on what was learnt at the Open Forum to make sure we talk and listen to a broader set of stakeholders across society when we design and implement policy. This includes shifting our communications towards digital and social media, and making more use of regional fora to explain what actions we are taking and why.

Key theme

With the majority of prudential regulatory reforms now agreed the focus needs to shift to ensuring that new regulations are communicated to help firms adjust to the new requirements. But there was uncertainty over whether regulation was in the right place and if the regulatory reform package was correctly aligned.

Next steps

- We need to ensure that the regulatory framework is coherent. Some work on this is already underway; for example the Basel Coherence and Calibration taskforce is reviewing the coherence of the Basel III regulatory framework.

Key theme

There was a view that the current regulatory framework had produced a number of unintended consequences, including a reduction in market liquidity which was also discussed in a subsequent session.

Next steps

- We need to review whether regulatory reforms are causing any unintended consequences. The Bank of England's Financial Policy Committee has committed to assess the cumulative effects of financial regulation and to consider whether in aggregate they have unintended undesirable effects.
- The European Commission has launched a review on the cumulative impact of financial regulation and has issued a call for evidence on unintended consequences of regulation.
- And the Financial Stability Board has published its first annual report which examines the overall effects of regulatory reforms and highlights unintended consequences.

Building a social licence for financial markets



Key theme

Building a social licence was seen as a good measure of the cultural and ethical changes required of financial institutions. Financial institutions should create their own ethical code to encourage individuals to want to behave ethically.

Next steps

- The Fixed Income, Currencies and Commodities Markets Standards Board and Banking Standards Board will both set out codes of conduct with the aim of driving better behaviour within the financial sector. It is important that institutions and individuals adopt these codes and consider them part of the culture of their workplace and that there is broad public understanding of these.

Key theme

Financial institutions needed to better connect with those in wider society that stand to benefit or suffer from their actions.

Next steps

- We need to think more on this and would welcome suggestions.

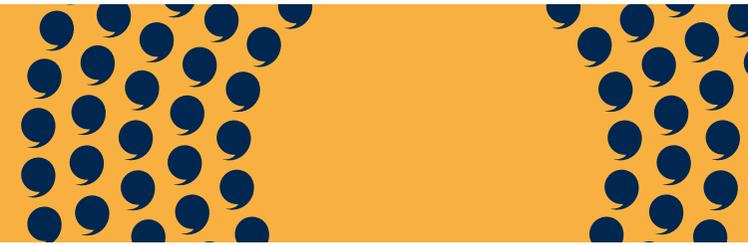
Key theme

On balance there was a disconnect between the public and those working in finance on the role financial markets should play in serving the needs of wider society. There was a lack of public trust in financial markets which may be linked to low public understanding and also a need to be more open and transparent.

Next steps

- The Bank of England has a strategic priority to enhance public understanding and as part of this we will use a range of communication channels on the role financial markets play in supporting wider society through interactive guides, educational resources, and wider communications campaigns.

Improving effectiveness of market finance in serving the economy



Key theme

SMEs currently face a funding gap and need new and innovative forms of funding if they are to grow and prosper in the economy.

Next steps

- Our joint initiative with HM Treasury has sought to improve access to credit data in order to support the provision of credit to SMEs.
- The Competition and Markets Authority's investigation into SME retail banking will tell us more about some of the market impediments to the provision of SME lending. The Bank of England's Funding for Lending Scheme also includes incentives to boost lending towards SMEs.

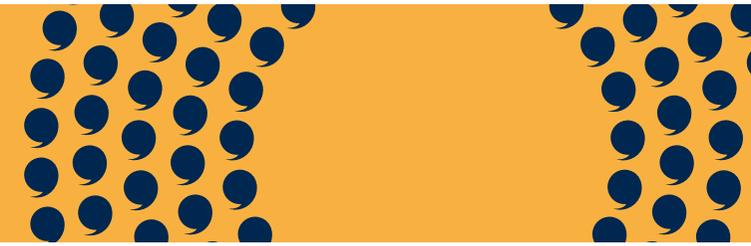
Key theme

There was a need to review regulation that was restricting the ability of retail investors to provide funding to SMEs.

Next steps

- The Bank of England will publish a discussion paper in March 2016 on the needs of companies to raise finance at different stages of their development and potential solutions.
- The European Commission's plan for a Capital Markets Union should unlock a variety of forms of funding for SMEs.
- The Financial Policy Committee and Prudential Regulation Authority Board are also looking into the outlook for the UK banking sector. A report will be delivered by Q2 next year which will, amongst other things, evaluate the retail banking landscape, including a specific appraisal of the provision of banking services to SMEs in the UK.

How financial innovation and technology can support the economy



Key theme

There was a need to build a better understanding of this new and fast-developing area.

Next steps

- HM Treasury and the Financial Conduct Authority have launched the Financial Advice Market Review which, among other things, will examine the opportunities and challenges presented by new and emerging technologies in improving access to financial advice.
- The Financial Stability Board, World Economic Forum and others are also working to understand and react to the opportunities that arise from financial technology.
- The Bank of England's research agenda on central-bank-issued digital currencies should help us identify and react to changes in this dynamic area.

Key theme

Big data-driven and open-architecture models could give a much more accurate appraisal of risk than traditional models, with almost instant feedback (and possibly funding) to applicants.

Next steps

- The Bank of England and HM Treasury have proposed a joint credit data initiative that could make it easier for lenders to identify suitable SME applicants. The Bank of England is also one of the biggest repositories of big data so we will look to play a key role in facilitating the development of credit risk models in this area.

Key theme

Markets needed to be established that supported patient, long-term, committed and strategic financing so that sustainable businesses could be created.

Next steps

- We need to think more on this and would welcome suggestions, particularly about whether there is a need for the development of a consistent regulatory framework for emerging forms of innovation.

The role of liquidity in the wider economy



Key theme

Market liquidity needed to be improved both in normal times and in times of stress.

Next steps

- The Basel Committee on Banking Supervision bank leverage requirements should result in dealers becoming a more stable source of liquidity.

Key theme

Asset managers have grown rapidly in size and scale and should be subject to stress testing and be able to be resolved in an orderly manner.

Next steps

- Asset managers can be stress tested as part of the Financial Policy Committee's stress test exercise, and the Bank of England, Financial Conduct Authority and Financial Stability Board are working towards ensuring asset managers can be resolved in an orderly manner.

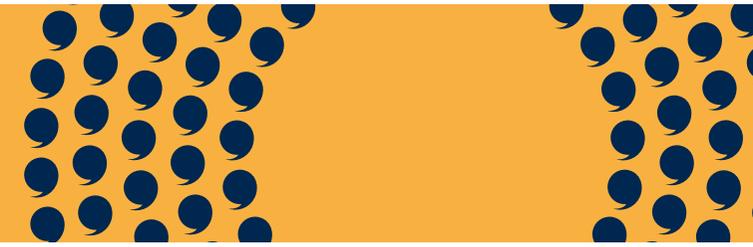
Key theme

Regulators should shift their focus from detailed rules to righting the industry structure by simplifying financial institutions and creating a culture of personal responsibility.

Next steps

- The Fixed Income, Currencies and Commodities Markets Standards Board and Banking Standards Board have set out codes of conduct to improve market standards.
- The finalisation of Prudential Regulation Authority rules on banking structural reform should lead to simpler institutional structures.

The role of central banks in financial markets



Key theme

There needed to be a better public understanding of the role and activities of central banks.

Next steps

- We will look to build engagement and understanding through increased outreach, including through our regional visits. This could include building an agenda around a specific topic and making sure we speak and listen to broader groups of stakeholders than currently.

Key theme

Central banks should be proactive in seeking to improve market structure and effectiveness where it contributes to monetary and financial stability.

Next steps

- The Bank of England, HM Treasury and Financial Conduct Authority are considering this issue as part of the follow-up to the Fair and Effective Markets Review.

Key theme

Central bank liquidity facilities needed to keep up with changes in market structure.

Next steps

- The Bank of England has widened its access to its central bank facilities to accept broker-dealers and central counterparties, and has expanded the set of eligible collateral. We publish an annual review of our liquidity facilities.

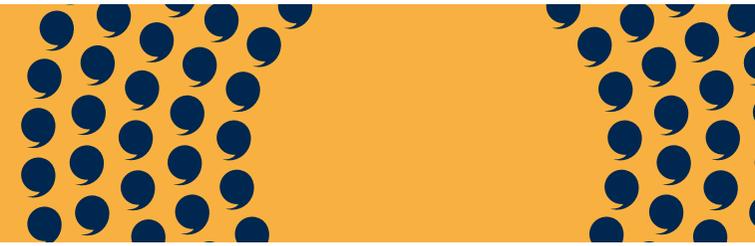
Key theme

Central banks needed to be appropriately clear about their criteria for intervening to support market liquidity.

Next steps

- The Bank of England's Red Book sets out how the Bank might act as market maker of last resort in exceptional circumstances. We recognise the need to provide further guidance on our approach in this area, especially in view of the growing importance of market-based finance, and will look to do so during the next year.

Where next for financial markets?



Key theme

It was clear that there was a lack of understanding among the public about what financial markets are and the role they play in supporting the wider economy. That lack of understanding leads to disengagement and mistrust.

Key theme

There was a disconnect between those in the financial sector who have a positive view of financial markets and the general public who do not believe that financial markets serve society.

Next steps

- The Bank of England and others have a responsibility to explain clearly to the public what we are doing to make financial markets better serve the needs of society so everyone can enter into the debate. One idea was to support a new Professor of Public Understanding for the financial sector.
- We need to talk and listen to the public so we understand their needs and challenges as customers and consumers. That way we can build real markets that serve the needs of society.