

1. Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in carrying out your continuing duties as a member of the FPC?

I have two current business connections, both of them outside the financial sector and outside the UK, one dating from before my first FPC appointment, the other more recent. I am vice-chairman of RTL Group SA in Luxembourg, which holds the radio and television interests of the Bertelsmann group (there is a 25% quoted minority). In 2015 I joined the board of a software start-up, CiBO Technologies, in Cambridge, Massachusetts. In neither case is there any overlap with matters of concern to the FPC.

Last March, my wife was appointed deputy CEO of the Co-operative Group Ltd (Co-op Group), which, at the time, had a circa 20% shareholding in Co-operative Bank Plc (Co-op Bank). While I did not personally have an interest in Co-op Bank, my wife was involved over the succeeding months in the negotiations that led to the recapitalisation of Co-op Bank. This was disclosed to the FPC during the March FPC round in 2017 and the FPC agreed that, in order to mitigate any risk of a perception of a conflict, I would absent myself from any future FPC decisions and discussions, and would not receive future FPC papers, on firm-specific matters relating to Co-op Bank and CIS General Insurance Ltd (a 100% Co-op Group-owned PRA-regulated mutual insurance company).

The recapitalisation of Co-op Bank last year resulted in, amongst other things, a significant dilution of the Co-op Group's stake in Co-op bank. As a result of this change in circumstances for Co-op Group and Co-op Bank, the FPC judged that the risk of either an actual or perceived conflict of interest had significantly diminished and the FPC removed my recusal arrangements in respect of Co-op Bank in the Q4 FPC round in 2017. The recusal arrangements in respect of CISGI remain in place; but I do not expect this to become a live issue for the FPC in the foreseeable future.

I have no other business or financial connections or other commitments which might reasonably be considered to give rise to a conflict of interest in the carrying out of my continuing duties as a member of the FPC.

2. Do you intend to serve for the full term for which you have been re-appointed?

When invited to undertake a third term (following five years on the committee) I indicated that I would be willing to serve until June 2019, at which point the FPC will publish its first Financial Stability Report following Brexit. I understand that reappointments are required by statute to be for three years. I thought it best to indicate at the time of reappointment that I did not intend to serve the full three-year term. This remains my position.

3. Why have you decided to stay on for a further term? What have you learned from your experience of being on the FPC so far? Do you plan to approach your work differently during your further term?

Since I only plan to remain for a little over a year, this does not feel like staying on for a further term, more the extension of an existing term to its natural limit. In other words, it is more a question of

ending my period of office properly than of making a new beginning, and I don't expect to approach the work differently. As for what I have learned on the FPC, the answer is a very great deal. The objective of the committee in respect of financial stability is easy to understand; the means of bringing it about can be very complex and technical. One of the many challenges for the committee is to handle the technicalities while not losing sight of the objective. My colleagues have done a great deal to further my education in areas where the FPC is in a sense pioneering, if only because (and here we inhabit a different world from our MPC colleagues) both practical experience of financial stability policy and relevant academic research are sparse.

4. In what areas in particular do you hope to focus your work on the FPC in the next period of tenure? What is your main priority for research in your further term?

I expect the two principal areas of focus in the next year or so will be Brexit (inevitably) and the review of the banks' capital stack. On Brexit, the FPC will continue to monitor, as it has done for some months already, those areas affecting the financial system which need to be addressed as a consequence of our withdrawal from the EU, as well as being alert to potential spillover effects on financial stability from a disorderly Brexit. The rebuilding of bank capital has been the central preoccupation of financial stability work in the ten years since the crisis. The beginning of 2019 has been one of the milestones towards which we have been travelling for nearly eight years now, as it was the preliminary end-date for the Basel reforms (that there are now subsequent end-dates should surprise nobody). Anyway, it's time to take stock, and the FPC is committed to doing so.

5. Have you received the support from the Bank that you need to fulfil your role? Are there any changes that the Bank could make to support external members of the FPC better?

In my experience the Bank is anxious to give us whatever support we need. I find the most useful support comes in debate and argument. The Bank of England is full of very bright people with – sometimes – surprisingly strong views, who positively relish discussing ideas. I may be imagining this, but it feels as though the whole financial stability area, as the FPC has developed in depth and breadth, has become increasingly attractive to ambitious and creative young people in the Bank. And this in turn has fostered the development of the committee.

6. What do you think are currently the most significant risk to global and domestic financial stability? What do the FPC's financial stability indicators currently tell you about financial stability in the UK?

Generally speaking global risks are rising at present, if only for cyclical reasons: global growth is accelerating and risk-taking is increasing, while the compensation for risk-taking has been declining. More particularly, it is hard not to worry about China, given its scale and importance in the world economy and the very substantial build-up of debt that has taken place there. We know that rapid credit booms have been associated with financial crises in the past. China's privately held debt-to-GDP ratio has grown very rapidly indeed; by about 60 percentage points in just five years.

It is not necessary to forecast an imminent hard landing (as modelled in our recent stress tests); any significant slowing of Chinese growth would have major consequences for the rest of the world. Not all recent political developments there are encouraging. At the same time, rapid growth in the US

budget deficit at a time of global macroeconomic tailwinds is unlikely to make a positive contribution to financial stability, and there remain structural fault lines in the Eurozone.

At home, Brexit is obviously a major source of tail risk, since it involves a radical but as yet unquantifiable change in institutional arrangements. UK economic growth has been relatively subdued over the last 18 months, but some areas of credit – unsecured in particular – have been growing at a lively pace. The FPC has taken a number of steps over the last few years to prevent an erosion of lending standards, in mortgages (both owner-occupied and buy-to-let) and in consumer credit. In owner-occupied mortgages we were concerned about protecting borrowers from over-extension; elsewhere lender resilience has been the target. After trudging for years along the post-financial-crisis valley bottom it would be easy to mistake the build-up of distressed debt for exuberance, and modest exuberance for all-out boom. I hope we shan't lose our bearings to that extent.

The FPC's financial stability indicators are giving very contradictory signals at present; some ice-cold, some very hot. The current account deficit is particularly interesting: it has shrunk since the EU referendum (good); it remains very high (not so good); it is increasingly being financed by short-term foreign inflows rather than asset sales by residents (concerning).

7. How far could banks' business models be affected by open banking and developments in financial technology, and what implications will open banking and Fintech have for financial stability?

Developments in fintech and open banking could potentially have far-reaching effects on bank business models. Financial stability consequences would ensue if, for example, banks were deeply wounded by competitors with new business models and began not only to shrink but eventually to fail. Less dramatically, we might see much more lively competition for deposits, which could destabilise the business models of banks that are heavily reliant on customer inertia. At present the fintech challengers are approaching the consumer markets with some lively propositions, but building scale is difficult and the advantages of incumbency are hard to overcome. The giant tech companies have so far played only on the fringes of the banking markets. If they were to compete seriously, I suspect there would be fireworks.

8. To what extent has the problem of "Too big/important to fail" been solved? Are any institutions in the non-banking sector "too big/important to fail"?

It would be pleasant to be able to say that Too-big-to-fail has been solved. I think it would be truer to say that vast strides have been made towards solving it; not only has failure of a systemic firm become less likely, but resolution authorities could have a really good crack at resolving even the largest firms without recourse to taxpayer funds. One reason for hesitation is that the capital stack is not yet complete: the equity capital required by international standards is more or less in place, but bank holding company debt that can be bailed in in a crisis will not be fully ready for a few years. We shall only find out how well co-ordination between international resolution authorities works when a crisis strikes. We've come miles, though, but let's not pretend the failure of a major bank would be inconsequential.

The question about non-banks being too-big-to-fail is an interesting and important one. I don't believe a central counterparty could be allowed to fail if this would imply the disorderly closure of the critical services it provides; the question then is whether the apparently robust mechanisms in place to prevent failure would work under all circumstances without causing wider disruption to the market.

9. To what extent is there growing pressure for a lighter-touch regulatory regime in the UK? How do you respond to such pressure? Are there any areas of the financial sector you consider to be over- or under-regulated?

Pressure for a lighter-touch regulatory regime comes from a number of quarters. The firms themselves, for a start, though at the moment, with in some cases two changes of management since the financial crisis, they are largely reconciled, however reluctantly, to the new regulatory order. (That's not to say that there aren't a number of points on which they would like long overdue international clarification). Second, some academic voices have attacked the increasing quantity of regulation, though many others regard it as inadequate. Third, there are those whose view of Britain post-Brexit encompasses a move back to low touch – sometimes referred to as Singapore-on-Thames, a misnomer since Singapore has strict and highly effective financial regulation. Fourth, there is some pressure for erosion of standards internationally, both in Washington and where the leverage ratio is concerned, parts of Brussels. I am bothered about the European Commission's plans, which seem to me imperfect, and, if they are subject to maximum harmonisation, even dangerously imperfect. Fifth, and perhaps most dangerous, the lapse of time since the crisis makes it harder to maintain the necessary vigilance. I addressed this question in a recent speech "The Committee of Public Safety".

10. Has the FPC operated free of all political interference? How have changes to the Chancellor's remit for the FPC changed the way you approach your work?

If by political interference the question refers to political direction of the committee's affairs, then the answer is that this has been entirely absent. The Chancellor's remit serves as a useful reminder to the FPC of the concerns and objectives of government as they vary over time. I have not found it to be in the slightest degree restrictive or limiting. That said, no organisation operates in a political vacuum. A central bank's decision-making may be independent of government, but the political environment affects all who breathe its air, and these are acutely political times. The Bank of England and its committees have to get on with their statutory duties without either taking an overt political stance or being cowed by the fear of being accused of doing so.

11. What do you regard as the main institutional challenges facing the FPC over your next period as an FPC member?

My remaining period is so short that I hope it may be free from institutional challenges. Finding new external members with a combination of sufficient technical knowledge and different backgrounds will be a continuing (and vital) task for HM Treasury. The degree of freedom of action the UK will have in the regulatory sphere after leaving the EU is clearly a crucial question, but it is bound up in the nexus of the overall negotiation. At some stage we may hope that the capital stack becomes a question of care and maintenance rather than policy-making; the committee may then develop in different directions, by then under a new Governor.

12. How do you think the FPC is regarded by financial firms? How well do you think the FPC communicates with, and understands the concerns of, financial firms?

I suspect the FPC is regarded by the firms as a necessary evil. I hope (and believe) that they do not find us unpredictable. Market reaction to the FPC's rather numerous policy pronouncements suggests that signals hoisted by the committee are observed and understood. I feel we have succeeded in establishing coherence in our reaction function: typically the FPC will mention a problem it is concerned about, warn the following quarter that it is considering action, and then act the quarter after that. Firms have seemed on balance to welcome underwriting standards put in place by the FPC or the PRA, probably because they set a floor to competition on price or other factors.

13. How well do you think the public understands the work of the FPC, and to what extent does it matter if they don't? How have you worked to increase the public profile of the FPC?

It seems to me very important that the firms themselves, the financial markets and specialists in the political and media worlds have a deep understanding of the FPC. The public more generally simply needs to know that the Bank of England (never mind through which administrative channel) is taking steps to make the financial system safe. This point needs to be made tirelessly, and I think it's getting across. The idea that breakfast tables across the country should echo with arguments about the setting of the Countercyclical Capital Buffer strikes me as far-fetched.

I engage in four sorts of communication on behalf of the FPC. The first is to professionals, meetings under Bank auspices with investors, analysts or journalists. The second to groups of young people, at universities or foreign central banks. The third to the interested public whom I meet as we all do on regional visits up and down the country, which invariably involve some sort of public presentation to a wide audience. The fourth concern formal speeches which end up on the Bank's website and are intended to illustrate some aspect of our work that is preoccupying me. In writing them I have a thoughtful non-specialist audience in mind, beyond those in the room I happen to be addressing at the time. It is not clear that anyone takes the slightest notice of them.

14. How easy has it been to maintain consensus on the FPC? How far have you had to compromise to achieve consensus? Has there been any decision on which you personally have come close to breaking the consensus?

The apparent ease with which consensus is maintained on the FPC is perhaps deceptive. It relies on a number of factors. First, the members – internal or external - have a high degree of respect for each other and are well able to gauge the depth of their colleagues' expertise and concern on any matter. A member with deep knowledge of some aspect of an issue who is clearly worried about a potential decision will not be overlooked. Second, the policy meetings are prepared through a large number of preliminary meetings which allow concerns to surface early; they will either be dismissed, or fed into the consensus. Third, as I mentioned under my response to Q3 above, the precedent for financial stability policy setting is quite thin, which helps give the committee a very proper shared humility. Compared with our colleagues on the MPC, who can have a lively debate backed up with hard data about whether some variable should be 0.1 higher or lower, we are dealing with very rough judgements, where probabilities are imprecise. Typically we ask ourselves – is there a problem here? Should we think of doing something about it? What instrument might we use to address it?

When? By how much? Having so many possible questions to disagree on can oddly make it easier to arrive at a common position. Sometimes this will rightly be a deferral to the next meeting – since the committee’s pulse rate, like the financial cycle, moves quite slowly, dynamic procrastination can sometimes be a good idea. I have found some decisions more uncomfortable than others, of course, but give and take is indispensable on a committee like this, and I have never felt ignored when I had something to say.

15. Does the FPC communicate with one voice on all matters pertaining to financial stability, or only decisions it has reached by consensus?

So far all decisions have been reached by consensus. Were consensus to break, I expect that, since the results of a vote would be public, those that held a minority view would wish to explain their position. We have over the last few years, encouraged by the TSC, published rather more expansive accounts of our meetings in the FPC record, which generally gives a good idea of the range of views expressed on those subjects where we have had to work hard to find consensus.