Questionnaire from the Treasury Committee for Professor Stephen Blyth, appointee to the Financial Policy Committee of the Bank of England

Personal

1. Do you have any business or financial connections, or other commitments or interests, that potentially give rise to a conflict or perceived conflict of interest in carrying out your duties as an external member of the Financial Policy Committee (FPC)?

No, I do not have any business or financial connections or other commitments which might give rise to a conflict of interest or perceived conflict of interest in carrying out my duties as an FPC external member.

I am aware of the FPC's Conflicts Code and have declared and discussed my interests with the Bank's Secretary's Department as part of the appointment process.

I was a Limited Partner in a hedge fund (Tudor Riverbend Crossing Partners) but have redeemed this position and am no longer an LP. I have also disposed of shares held in a Bank-regulated firm to avoid holding any equity exposure to a regulated financial institution.

In terms of my other financial interests, I will move individual securities to a fully discretionary mandate such that day-to-day control over all investment decisions will rest solely with an appointed portfolio manager. I will retain control over certain collective investment funds, including US retirement accounts for practical reasons, but have undertaken not to transact in these funds while serving on the FPC.

I also hold three private investments, in particular Maiden AI, (whose product, Fulltrack AI, allows ball-tracking for cricket), ARZN International Inc (a Delaware based Pakistan renewable energy company) and London-based Ahren Innovation Capital SAIV venture capital fund (which invests in deep tech and sciences). Given these interests do not relate to the UK and/or are not concerned with financial services I have confirmed with the Bank that there is no issue with me retaining these.

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

Yes.

3. Do you have, or do you intend to take on, any other work commitments in addition to your membership of the FPC?

No, I do not have other work commitments. I have stepped down as Principal and chair of the trustees of Lady Margaret Hall (LMH), University of Oxford. I have simultaneously stepped down as Chair of the Finance, Development and Academic Policy Committees at LMH, and as director of three subsidiary companies connected to my role at LMH (Lady Margaret Hall Trading

Limited; Lady Margaret Hall Properties Limited and LMH Hospitality Services Limited). I have also stepped down as Chair of Oxford University's University Superannuation Scheme Working Group.

I currently chair in a voluntary capacity the major appeal board for the charity Blood Cancer UK.

I understand that my outside roles will be published in the Bank's register of interests.

4. Please explain how your experience will inform your role as an external member of the FPC. To which areas of the FPC's work do you expect to make particular contributions?

I believe that I can bring a distinctive combination of financial expertise, international market insight, analytical skills and leadership experience to the FPC, which provides a strong fit for the needs of the committee.

My career has spanned both academia and financial markets. I was formerly President and Chief Executive Officer of the Harvard Management Company (HMC), the 275-person subsidiary of Harvard University which manages its endowment, and Professor of the Practice of Statistics at Harvard. Prior to joining HMC, I served as a Managing Director in the global rates division at Deutsche Bank in London, and as Managing Director in the fixed income division at Morgan Stanley in New York, making markets and taking risk across global fixed income and interest rate markets. My experience as a risk taker and investor at the heart of international financial markets gives me a practical understanding of how risk is priced, transmitted and managed in real-world conditions—insight that is particularly valuable when assessing systemic vulnerabilities and market functioning.

I have gained significant practical knowledge of the financial sector from my career. I spent twenty-two years in the finance industry in front-office positions, including ten years as a leading investor and senior manager at the largest university endowment in the world, rising to become CEO and developing an international network of investors, fund managers, business leaders and policy makers. I bring deep practical and technical understanding of financial markets and of financial institutions, having worked at senior level in European and American investment banks.

I have broad experience and deep understanding of financial stability risks. Early in my career I was involved in the Long-Term Capital Management bailout, and later managed Harvard's response to the financial crisis of 2007-09. I served on the New York Federal Reserve Bank Investment Advisory Committee on Financial Markets under Bill Dudley, and engaged with many regulators over my career, including numerous interactions with the Bank of England's Market Intelligence unit. My fixed income team and I informally advised the Office of Debt Management at the Department of the Treasury and the Markets Group of the New York Fed on policy interventions in the aftermath of the financial crisis.

I have extensive trading and portfolio management experience, with thorough knowledge of the multi-dimensional and non-linear risks that arise across markets, and first-hand experience of the

diverse range of market participants and their behaviours. At HMC, I rebuilt the international fixed income portfolio followed by the internal platform (all investment activity in public markets executed by HMC's own portfolio managers), hiring investors and traders from banks and hedge funds across the globe, and rose to become head of public markets, responsible for investing approximately 45% of the endowment's assets including equities, fixed income, credit and commodities. I believe that my risk-taking experience and knowledge of the international non-bank financial sector will be particularly valuable to the FPC in understanding the complexities of risk and lack of transparency outside the regulated UK bank sector.

As both a finance practitioner and academic statistician, I have published widely on the global financial crisis, derivative trading and valuation, asset allocation, the limitations of big data, and the importance of judgment in financial decision making. I understand the importance of rigorous analysis of risk and appreciate the dangers of the misuse of data and statistical models. I have the analytical ability to disentangle profound complexity, and understand how such complexity impacts broader market themes. Throughout my research and investment career I have valued intellectual curiosity and continuous learning, and I look forward to engaging with emerging areas such as digital currencies and climate-related financial risks, where I am building my knowledge base.

I expect to contribute particularly to the FPC's work on market functioning, risk transmission, and the evolving role of non-bank financial institutions. I believe that the range and depth of my experience equips me to challenge assumptions constructively and offer alternative perspectives grounded in both theory and practice. I also hope to support the Committee's communication efforts, drawing on my leadership experience to help explain complex issues clearly and coherently with stakeholders across the UK.

5. How do you assess your current state of knowledge about the UK economy and financial sector and macroprudential policy in the UK, and are there any areas in which you need to develop your understanding?

I started my financial career at HSBC in London in the 1990s, and have traded gilts, GBP swaps and swaptions, and a range of sterling cash and derivative products throughout my investment career, so I have a strong foundational knowledge of the UK financial sector and markets. Recently, I chaired the USS working group of Oxford University, gaining insight into the challenges and opportunities facing the largest private pension plan in the UK. Throughout my career, I have been particularly interested in the complex dynamics of the gilt market, which currently plays an increasingly important role at the interface of market stability and fiscal policy in the UK.

My trading and investment experience has made me acutely aware of the gilt market's broader macro-financial significance. For example, the 2022 LDI crisis underscored how volatility in the gilt market can rapidly spill over into other parts of the financial system—including pension funds and mortgage markets. During the LDI episode, we saw how disruptions in the gilt market

led to a sudden withdrawal of mortgage products and increased costs for borrowers, highlighting the interconnectedness of financial markets and the real economy.

Markets and market participants continually evolve, the regulatory and policy environment changes, and technological innovation advances rapidly, so I am conscious of the need to continually update my own knowledge. I am particularly interested in learning more about digital assets, which have developed dramatically in market relevance since I ran the endowment. I also look forward through the work of the committee in learning more about the macroprudential activity of the Bank and its interplay with other authorities.

The Financial Policy Committee

6. What is your assessment of the track record of the FPC and the state of the global financial stability regime?

As a participant in financial markets since the 1990s, I have witnessed a significant evolution of the international regulatory environment, most notably since the 2008/09 global financial crisis. The Bank of England has built a strong international reputation as an informed, intelligent and responsive regulator since the crisis. The flexibility and pragmatism of the Bank's macroprudential policy is envied by regulators and market participants in other jurisdictions. I was impressed by my own interactions as an investor at Harvard with the Bank's market intelligence team. Their questions showed the depth of their understanding of challenges and incipient issues in markets.

The FPC is itself well regarded as a sensible and appropriate macroprudential body. Its mandate is clear: to identify, monitor and mitigate risks to financial stability. These risks can arise from the actions of multiple market participants each with their own objective functions not necessarily aligned with market stability. There is thus an evident need for a macroprudential regulator to assess and monitor the externalities of the aggregate of market behaviour.

Empirically, one could argue that the track record of the FPC is strong, given that UK financial markets have absorbed major shocks, in particular the Covid pandemic, without major instability or dysfunction. The FPC has successfully increased resilience in the banking sector, helping to ensure that the banking system as a whole can absorb material shocks as opposed to amplifying them. In addition, the FPC's articulations of the evolving risks facing the markets (including leverage and lack of transparency in non-bank financial institutions, climate risks and Artificial Intelligence) are extensive and credible to market participants. However, one cannot make overly strong claims of a causal link between the establishment of the FPC and the lack of major financial crises, given the impossibility of knowing what would have happened without the committee. The LDI crisis of 2022 showed both the limits and strengths of the regulatory framework: not all extreme market price action can be avoided; yet responses to market illiquidity and stress were swift, targeted and well-informed and provided a window to increase the resilience of the sector to future shocks.

As the FPC has emphasised, financial stability is a prerequisite for economic resilience, and well-functioning financial systems can contribute positively to innovation and increased growth. The regulatory regime must therefore strike a balance between managing systemic risks and enabling productive enterprise.

Internationally, the global financial stability regime is currently navigating a period of heightened uncertainty and structural change. I agree with the Bank's July 2025 Financial Stability Report which highlighted heightened geopolitical tensions, fragmentation in global trade and financial markets, and elevated pressures on sovereign debt. The latter issue in particular brings unprecedented challenges for policy makers and regulators.

Non-bank financial institutions continue to pose challenges to global financial stability, and the FPC has been focussed here for several years. Progress is being made on surveillance tools and data gaps, but further international cooperation is needed. In my view, the current environment calls for continued vigilance, enhanced cross-border coordination, and a recommitment to establishing and maintaining high regulatory standards. As financial systems become more interconnected and exposed to global shocks, the resilience of national frameworks and their ability to work together will be critical. I look forward to contributing to the FPC's efforts in this area, drawing on my experience across global markets and international institutional risk management.

7. How important is it that the public and the financial services industry understand the role of the FPC, the decisions it takes and the views of its members?

I believe that the FPC will be most effective in promoting financial stability when participants in the UK financial sector, both institutional and retail, have a complete and detailed understanding of the committee's work, and – importantly - confidence in its reasoning and actions. Therefore, effective communication is vital. I have been impressed with the publicly available FPC publications I have read in preparation for this role.

I would welcome the opportunity to speak publicly when appropriate about the important role that the FPC plays in the UK financial system. I have extensive communications experience throughout my career**.** I particularly enjoyed the ambassadorial role of the Harvard CEO, articulating the priorities and goals of the University and the endowment to faculty, alumni and external stakeholders. In addition, I have been an invited speaker at finance conferences, policy forums, investor symposia and academic meetings for over thirty years. As Professor of the Practice in Statistics at Harvard, I received several teaching awards including the 2013 Phi Beta Kappa prize for excellence in teaching and was selected as a favourite professor of the Harvard senior class three times. I believe I can communicate effectively and credibly to investors, financial services professionals and the general public.

I look forward to travelling across the UK to speak directly with people and businesses. I recognise that the Bank of England's Agents play a valuable role in connecting the central bank with the real economy, and I am keen to engage with their work to better understand regional perspectives

and economic conditions. These conversations can help ensure that the FPC's decisions are grounded not only in data, models and institutional expertise, but also in lived experience and practical insight.

Regulatory and Policy issues

8. What is your assessment of the risks to financial stability arising from the economic outlook and developments in geopolitics and trade?

There are growing challenges to the global financial stability regime from the rapidly shifting geopolitical environment. As an open, internationally connected economy and financial system, the UK and UK markets are vulnerable to international flows and the actions (and regulatory environments) of non-UK market participants. As discussed in question 6, a key ongoing challenge for the Bank will be to maintain and promote an internationally coherent and consistent regulatory framework. The reputation of the Bank and its regulatory role puts it in a strong position to do so.

It is important to distinguish between market volatility, which is a natural and healthy response to new information where prices change in response to changes in supply and demand or sentiment, and market instability, when liquidity can evaporate and markets cease to function. When there are significant changes in, for example, global trade policy, one would expect increased market volatility. The fact that markets continued to function reasonably well during recent such periods of heightened volatility empirically indicates the relative robustness of the financial system, but it is possible that had volatility persisted, market instability could have turned into market dysfunction and financial instability.

9. What is your assessment of the risks to financial stability arising from climate change? What role can and should macroprudential policy play in promoting the transition to net zero carbon emissions?

Climate change presents a complex and evolving set of risks to financial stability which I believe must be viewed through a long-term lens and with a practical understanding of market dynamics. The risks can be broadly categorized as physical risks, and transition risks with associated financial transformation impacts.
Tangible physical risks, such as those arising from extreme weather events, can disrupt economic activity, damage infrastructure, and impair the ability of households and businesses to meet financial obligations. Losses caused by such events can affect credit quality, insurance availability, and broader market confidence, which could erode resilience, especially if risk management fails to adapt.

Transition risks, and the financial transformations that may accompany them, can arise from significant shifts in climate policy, technological breakthroughs, or changes in consumer preferences, and result in rapid repricing of assets, particularly in carbon-intensive sectors. It is important for market participants to take into account the potential magnitude and speed of

such repricing: a disorderly transition could result in stranded assets, excess market volatility, and potential contagion effects.

The transition to net zero will significantly reshape commodity markets more broadly. For example, increased demand for clean energy technologies will heighten exposure – or future expectations of exposures - to rare earth metals, potentially increasing new sources of volatility.

Macroprudential policy has an important role to play in ensuring that the financial system remains resilient under a range of climate outcomes. Stress testing for climate-related risks, improving data and modelling capabilities, and assessing whether the capital framework adequately captures future losses are important tools.

10. What is your assessment of the balance of risks to financial stability and opportunities for innovation and growth arising from digital currencies, and from the possible development of central bank digital currencies in the UK and globally?

As is often the case with fast-developing technology, digital currencies and assets represent both an opportunity for financial market innovation and challenges for financial stability. As a member of the Financial Policy Committee, my primary focus would be on assessing and mitigating the risks these developments may pose to the UK financial system, while recognising their potential to enhance efficiency and resilience particularly within the payments system.

From a financial stability perspective, it is important to assess the degree of interconnection of digital assets - whether cryptoassets, stablecoins, or tokenised instruments— with traditional finance. Current adoption levels and interconnectedness are growing and the ecosystem is evolving rapidly. If stablecoins or other digital forms of money gain widespread use, they could pose risks such as sudden deposit outflows or liquidity mismatches in stress scenarios.

However, there are also opportunities. If appropriately designed and regulated, new forms of digital money could make payment systems more robust and resilient. A central bank digital currency or tokenised private money, for example, could promote innovation and efficiency in domestic payments, supporting economic growth. Similarly, tokenised assets operating on modern infrastructure may reduce settlement risk, a perennial concern to market participants.

The Bank and FPC can play an important role in ensuring that innovation is pursued in a sustainable way, with financial stability considerations embedded from the outset. As the market grows and matures, it will be important to assess whether the regulatory frameworks adequately capture the risks posed by digital assets. Once again, internationally consistent regulatory regimes will play a key role in reducing financial stability risks as digital assets grow in systemic importance.

I am deepening my understanding of digital assets and their implications for financial stability. I look forward to engaging with the work already underway across HM Treasury, the Bank of England and the FCA, and to contributing to the FPC's efforts to ensure that the financial system remains resilient as innovation continues.

11. What is your assessment of the benefits and risks to financial stability arising from developments in machine learning and AI technologies?

Financial markets have long sought to find patterns and predictability in data, proposing regression functions that provide an estimated response or output given a set of input variables. Machine learning and AI are, at a fundamental level, nothing more than high dimensional regression models using huge amounts of data. However, that simple categorization does not acknowledge the import of two factors: first, that the advances in technology have enabled extraordinary capabilities, for example, in large language models; and secondly, that these models have a fundamental lack of interpretability.

Machine learning and AI will have substantive impacts on the shape and form of the UK economy, rendering certain roles obsolete and creating others. They may also play an important role for financial institutions, increasing efficiency and capability. However, the use of machine learning in investing and trading has challenges, due to the inherent time-inhomogeneity of financial markets.

I believe that the most significant risk to financial stability will arise from two areas: first, the potential correlation from market participants using the same data and similar AI techniques; and secondly from the challenges in understanding the limitations of AI models, and how they may fail. The existence of "universal adversarial perturbations" to image-recognition software, where imperceptible changes to an image can render the algorithm useless, is a cautionary example.

These risks are not confined to financial institutions. If AI-driven models are widely adopted across sectors without sufficient understanding or oversight, they could amplify systemic vulnerabilities. For example, correlated decision-making, with potentially incomplete appreciation of the flaws in underlying models, in lending or insurance pricing could lead to unintended credit contractions. This could mean reduced access to finance for households and businesses, with knock-on effects for investment, employment and growth.

However, the potential benefits are considerable. AI could improve productivity, streamline operations, and enhance risk detection across the economy, among many other areas. To realise these benefits sustainably, it is important that the FPC assess financial stability considerations in the development and deployment of these technologies.

12. To what extent does non-bank financial intermediation pose risks to financial stability, and how should the UK mitigate those risks?

The FPC has rightly placed a focus on non-bank financial institutions. Whilst UK households gain virtually all their financial services from the bank sector, UK financial markets are heavily influenced by non-bank entities. Indeed, much of the risk in international markets – to which the UK is significantly exposed – is taken by non-bank entities, such as hedge funds,

endowments, pension funds, insurance companies and private equity and credit funds. It is inevitable, therefore, that risks to financial stability arise from non-bank financial intermediation, particularly in relation to excessive leverage, opacity, concentration and complexity.

The key challenges to mitigating those risks are lack of transparency, a range of regulatory regimes, and complexity. UK and international regulators are aware of the relatively paucity of information from non-regulated and offshore entities, and any progress in increasing reporting is to be welcomed. Secondly, as mentioned in Q6 above, a consistent and coherent international framework of regulation will reduce the chance of "regulatory arbitrage" where actions can take place in one jurisdiction and not in another, or where reporting requirements can vary. Thirdly, all regulators need to be humble about the complexity of the financial risks present in markets. Even if every position held by every market participant in every jurisdiction were known by a regulator, it would still be difficult to fully understand risks to financial stability.

A key challenge is understanding the linkages between participants, the transmission vector whereby shocks can be exacerbated by correlated positions and actions. The System Wide Exploratory Scenario undertaken by the Bank is a commendable attempt to increase understanding in this area.

13. Apart from the issues highlighted above, would you highlight any other risks to financial stability in the UK and globally?

Cyber security, and the threat of cyber attacks, remain a key challenge for financial market participants. The FPC has been rightly focused on this issue.

A broader risk to financial stability in the UK and globally, which is harder to quantify, is complacency. As the sophistication of quantitative and computational techniques increases, so does the tendency to be overconfident and over reliant on the outputs of such models. I wrote a series of papers on the "Quant Delusion" which detailed how complex mathematical models were used in the run up to the financial crisis without full understanding of their underlying assumptions or inherent flaws. Such dangers only increase as the complexity and lack of interpretability of current AI and machine learning models increases.

Furthermore, regardless of the sophistication of the model or the size of the data, much remains unknown. John Maynard Keynes wrote in the 1930s about the concept of "irreducible uncertainty", drawing the distinction between events for which one can reasonably assess the probability, such as the spin of the roulette wheel, and events which remain inherently unknown, such as the risk of war in twenty years' time. Any risk management framework or regulatory oversight must consider the irreducible uncertainty that remains in the analysis of future outcomes. As was evidenced by the financial crisis and other periods of market dysfunction, investors, risk managers and regulators can be prone to mis-specify the possible future states of the world (or more formally, the "sample space" of all possible outcomes).

Judgments and risk management decisions made based on such mis-specified models often are revealed to be nonsensical were the full sample space to have been known.

My statistical training and practical experience have reinforced my sense of the dangers of "procedural statistics", the rote application of numerical techniques or models without a full understanding of the underlying problem. I believe that judgment, necessarily subjective and based on experience, will play a significant role in moderating over-reliance on and misuse of quantitative models. The judgment to question even the most successful of algorithms, and to retain humility in the face of irreducible uncertainty, may prove the difference between financial stability and the "horrific damage" of another crisis. Bodies such as the FPC are excellent forums where the judgment of regulators, academics and practitioners can be brought to bear on these challenges and help build resilience where it is needed.

Please return this questionnaire to the Treasury Committee by 02 October 2025, alongside a full CV, in both Word and PDF. The Committee usually publishes, in full, the CV and questionnaire.