Bank of England

Financial Stability Report Q&A
1st July 2015

Jennifer Ryan, Bloomberg News: Could you walk us through the process by which you changed your assessment of the risks to being more severe in light of what's been happening in Greece? So did you speak - did you convene a full meeting, emergency meeting of the FPC? Did you have a call with other central bank heads? Anything else that you did? And can you specify a little bit more about what particular risk it was, perhaps, that prompted you to say - okay, this is it; we need to have a rethink of our assessment.

Mark Carney: Thank you, Jennifer. I'll try to be as clear as possible. If this press conference had taken place two weeks ago, we would have balanced the risk to financial stability against the increased resilience of the UK system and of the UK economy as well, and we would have said, at that point, that - broadly speaking - the outlook for financial stability was unchanged from December.

Events in Greece have tipped the balance to - the outlook has worsened, as you will have noted. And in terms of the specifics of the process, yes, we had discussion of the Committee to come to that conclusion. The Committee is fully briefed on developments in Greece, fully briefed on the contingency plans. They were fully briefed on contingency plans in advance, but also in terms of what elements of those contingency plans either have become operational or may become operational. And the determination of the Committee was consistent with the conclusions in the Report.

You mentioned one other aspect: have we been in close contact with our European partners? Absolutely. We have been in close contact with our European partners on issues related to Greece, potential contagion from issues around the integrity of the euro area, for a number of years. We have been in more intensive contact since the negotiations began, with respect to specific issues around Greece, and we've been in almost continual contact with our European colleagues since the events - over the course of the last two weeks.

Richard Edgar, ITV News: Governor, you say that - it's on a similar theme - you say that events in Greece are moving very quickly, as they appear to be this morning again. Can I focus on one of the comments in the Report that - Risks in relation to Greece are acute and that UK could be affected by the wider effects of a collapse. Briefly, how would somebody in the UK feel that?

And on a separate note, Chart A9 in the Report shows that the UK's got higher exposure to China that any other major advanced economy. Is that more of a concern than Greece?

Mark Carney: Two things. In terms of the impact of Greece on the United Kingdom, just to recap something I think you know, Richard, but - the direct exposure is minimal, whether it's our banks or even our businesses. There is personal exposure, if you will. There are British people holidaying in Greece, either planned or actual, so they have some exposure there. But the direct exposure is minimal.

So the issue - it becomes a question of - what happens more broadly to risk appetite in financial markets and ultimately for businesses and households as a consequence of that?

Now, the possibility of an intensification of the Greek crisis has been known for some time - it's been known for a number of years. And the intervening years, in our judgement, have been well spent. New tools have been developed in the euro area - most importantly, tools for the European Central Bank. They have demonstrated their willingness to use those tools. New institutions have been developed in the euro area as well. There was a reaffirmation over the course of the last few days, as we would have expected, of the willingness of euro area finance ministers to use those institutions.

There's been a build-up of defences in the banking system in the euro area, again something we've been urging for some time. So they're more resilient. We have contingency plans in place; we have co-ordination, etc. The point being that there are a series of defences that are in place.

Now those defences may be tested, depending on how events unfold. But to the extent to which those are effective, a persistent impact on risk appetite and therefore on economic activity, is unlikely. But our job as the FPC is not to take that for granted, obviously, and more broadly as the Bank of England and with broader UK authorities and with European authorities is to make sure that we reinforce those defences as much as possible. Which is what we've done in the intervening years, and now we're doing in co-ordination.

Oh sorry. I apologise. You did ask a second leg on China.

Yes, you know, much bigger exposure to the world's second largest economy, as you would expect - second largest economy, fastest growing economy should add to global GDP, as you would expect, there is a lot of positives about that. In the bigger scheme of things, the evolution - an orderly evolution, an orderly transition in China, to an economy that is more driven by domestic demand, as opposed to foreign demand, that has a more resilient, market-driven financial system, that has a more open financial system and economy - that will have a much bigger and more lasting impact on the United Kingdom, without question.

Robert Peston, BBC: What probability does the Bank of England put on Greece exiting the euro, and how big an impact - how damaging would that be for financial stability?

Mark Carney: Well, we haven't put a precise probability on it. I mean, we have taken the approach in contingency planning that that is a possibility and therefore we should prepare for that. The translation of - prepare for the worst, you know, hope for the best but prepare for the worst - the worst is engendered by that scenario because it's a combination, as you know, not just of exit but an associated default and the knock-on effects of that. And then a test of those defences of the integrity of the euro area.

Now those defences are very strong, as I've said, and I won't repeat my answer of a moment ago. We think in the medium term that - we share the view of President Draghi and others - the Five Presidents' Report, in shorthand - that much needs to be done to reinforce the integrity of the euro - the institutional integrity, the effectiveness of the euro area - and for my views on that, I'll just refer to my Dublin speech of a few months ago.

So we think that in the near term, contagion should be limited here. But obviously, there's a reason we have contingency plans in place. There could be a period where, as I said, there could be more prolonged adjustment in risk appetite and knock-on effects in financial markets.

I would say, as we sit here today, what you see in sterling markets is that new financing markets remain open, relatively limited risk off type moves in broader markets. So thus far, things are proceeding as one would hope.

Phil Aldrick, The Times: Just on Greece still, you said that there are some issues - in terms of the contingency planning, some parts of it have already become operational, I think you just said. Some other parts may become operational. Can you specify what you have already put in operation and what may come into operation? Have you been having Cobra style meetings with the Prime Minister and the Chancellor? And when was the last time that the Bank of England has been in these kind of crisis situations? Is the Scottish Referendum comparable or is this far more severe?

Mark Carney: Actually, I'll do shorthand on the Scottish Referendum. As you may recall, we released what our contingency plans were and what we did in the run-up to that, and so on. Just refer to that, because that's in the public domain.

In terms of what we have been doing - yes, we have attended Cobra meetings. Andrew Bailey and I have attended them. That's part of a broader set of discussions with other authorities, including the FCA, importantly, as well as the Treasury, domestically, to share information, but also to be co-ordinated on action.

Let me say one word on some of the things we've done, and then I will pass to Andrew, because it's most relevant to the PRA.

So there are some Greek institutions that operate in the UK. There are branches of four Greek banks - one bank via Luxembourg, on branch via Luxembourg, and there's one subsidiary here. We are the primary authority for the subsidiary; the primary responsibility for the branches is the Bank of Greece. But we have supervisory oversight and we - not supervisory - we have an ability to effect certain changes in the liquidity management of those institutions.

We have anticipated this possibility; they have anticipated the possibilities, and certain things we have stepped up our degree of scrutiny and monitoring and protection for the individuals in those institutions - to the extent we can, recognising - I'll stop at this and hand to Andrew - that the responsibility for the branches, the ultimate responsibility, the Greek authorities, the deposit protection for deposits in Greek branches, is the Greek Deposit Scheme and the ultimate supervisor is the Greek - but, Andrew.

Andrew Bailey: Well, that's right. We've stepped up to very close monitoring, as you may expect. I mean, I think the answer to your question for a comparator is probably Cyprus just over two years ago. I mean that, in terms of the nature and level of activity. I think the only thing I would add to the Governor's description is - you might expect, on the other side of the coin, the one UK bank that is actively involved in Greece is HSBC. And again, you know, as in Cyprus, the measures taken by the government affect all banks operating in Greece, whether you're a Greek domestic bank or a foreign bank operating in Greece.

So, as you can imagine, we're in close touch with them, not because it's a threat to them as an institution, but there are obviously - you know, the devil's always in the detail with this sort of thing. So, as you can imagine, we're in close contact.

Mark Carney: Let me make one last point, which is that Andrew and his colleagues, part of European co-ordination - there has been regular dialogue with the SSM and the EBA, two relevant European institutions here, to ensure as much consistency as possible for all the jurisdictions outside Greece that are affected by these developments.

Andrew Bailey: Yes, and that's important because, as you know I think, because we've said it before, we've been supporters of the creation of the SSM for the reason, as I've said a number of times, that we wanted to have an effective partner as a supervisor. And I think we're already seeing the benefit of that in terms of the co-ordination, which is good.

Caroline Binham, Financial Times: Governor, at the end of your prepared remarks, you mentioned that we're moving to the implementation stage of reform and also that you would examine regulations for any unintended consequences. I was just wondering - have we hit the high watermark of regulation and what sort of measures did you have in mind?

Mark Carney: Well, I refer to you comments I made a few weeks ago at Mansion House with the recommendations of the Fair and Effective Markets Review. Most of the main building blocks of financial reform in the UK are in place and signalled with the Open Forum, as I did here as well, the importance of doing a stock take of the cumulative impact of those regulations, particularly on market functioning.

I said it this morning, but I'll just repeat it, that you know, part of the change in liquidity dynamics and market volatility is a very welcome development of shoring up the resilience of the core of the system. We've moved away from an ephemeral sort of false amount of market liquidity and market making that existed prior to the crisis - it wasn't so much market making, quite frankly, as position taking by these institutions. We've taken that out. And that has a consequence.

Volatility is moving back towards historic averages, though it feels a little more sharp because it's been suppressed for quite a period of time. But it also feels sharp because, as you are aware, there's been sharper moves intraday than we have seen previously. So for a variety of reasons - that's the good part of the adjustment.

But the question is, given all the changes that have happened, not just on the prudential side, but also in terms of electronic trading, algo trading, all type exchanges, other mechanics of markets that have changed - and the very sharp increase in asset management activity, doubling in the size of asset managers who have to manage their own liquidity, subject to some expectation of market liquidity - it's time to look at all of this in the round and assess whether markets are going to function through the cycle in a way that is the most productive for the system.

And I would stress something I said, which is - we're looking at the activities of asset managers. It's not a question of the systemicness of asset managers per se, it's how they manage liquidity and what that means for market dynamics. And the only observation I'll make on that front is that this is an evidence-based process that looks at - and we've gone out and surveyed 135 asset managers active in the UK. We're working through that data and case history there. It would be somewhat surprising - an early stage analysis of the data backs this up - it would be somewhat surprising if liquidity rules and liquidity management strategies that were put in place under the old world, pre-crisis world, world of quite ample market liquidity - ultimately short-term market liquidity, but quite ample market liquidity - if that approach were ideally suited to the current environment.

So the unintended consequences kind of go both ways, but it needs to be looked at in the round. And I'll give one other commercial for our Open Forum here, because that's part of how we're trying to organise this discussion, because it needs to have everybody in the room.

Tim Wallace, Daily Telegraph: Governor, you said you'd take any actions required to safeguard financial stability. Can you explain a bit more about which sorts of powers that refers to and what sort of action might be necessary, and also if this is comparable to Mario Draghi's "Whatever it takes" speech in 2012, where he was trying to reassure markets through strength of words?

Mark Carney: Well, let me deal with the last one first, which is I would never tried to compare myself to President Draghi, and the circumstances in which he found himself when he made those comments - the risks, the existential risks, that the euro was facing at that time, and the importance of what he said and subsequently backed up - the Governing Council backed up in terms of instruments - there's no comparison to the situation the Bank of England finds itself in today, where there are events that could have some spill over impacts, that could lead to broader - could lead to broader risk off behaviour in markets and some knock-on effects - for which we have all the instruments we need right now to help mitigate, and which we have to some extent anticipated. And I think you'd be quite shocked if we hadn't anticipated this as at least a possibility. And remember, you know, our job - particularly the Financial Policy Committee - is to always look at the glass as being half-empty and think about what could go wrong and how do you prepare the system for that, and then make a judgment in terms of the cost benefit of taking out those preparations.

In terms of specifics, I'm sorry, I'm not going to go into specifics of contingency plans in advance of operation. If we operationalise things, we'll let you know. I would say not all the tools are the responsibility of the Bank of England, but I would echo what Andrew Bailey said a moment ago, which is that we have worked in very close co-ordination with European authorities, all European institutions and domestic authorities. And one thing I can assure you, based on that, is that it will be co-ordinated, if we need to do something.

Paul Davies, Wall Street Journal: I just wanted to ask quickly about something that's not in the Report. Does the uncertainty around the domicile of certain large institutions pose any concerns to stability broadly? And similarly, if any large institutions move or as certain banks move operations away from the UK as they're worried about, you know, how the European vote might turn out, what kind of concerns, threats or even benefits does that pose for stability in general?

Mark Carney: Right, well let me say a couple of things to that. First, the competitiveness of this system, the stability of this system, is bigger than any one institution or institutions.

Secondly, that ultimately financial stability, properly achieved, supports competitiveness - competitiveness in the system. London, as you know, London is the leading international financial centre. We have a special responsibility as the largest venue for foreign exchange trading, the largest venue for international cross border banking, and the largest venue for international bond trading, the largest venue for derivatives - we have a special - and we have also a special responsibility, given the size of our financial sector relative to the size of our economy at present and very much prospectively. If this is a competitive financial system, it's going to grow considerably in orders of magnitude, relative to the size of this economy.

We have a responsibility to make sure this system is resilient, so we have taken a number of measures in order to ensure that - not just the banks, but the markets and the market infrastructure. And we have a responsibility, with others, particularly the FCA, to make sure - and they have primary responsibility for this - to make sure that the system acts with integrity.

As the leading financial centre of one of the largest banking systems in the world, it shouldn't surprise that we're more towards the forefront of design and implementation of measures both for banks and markets. But these are building blocks of competitiveness.

Now we need to take stock of everything that's been done, make sure that it fits together effectively. If there's overlap, if there's some inefficiencies, we're mature enough to make adjustments to those. If there's underlaps or if there's big gaps, we will fill in those gaps. But let me make one last point. If you're a global bank, a global institution, it's not like you can go to some other jurisdiction and not have a credible resolution plan, and think you're going to operate in the United Kingdom or the United States or the euro area. It just won't happen.

And it's not like you can have a compensation scheme or a governance structure that doesn't meet international best standards, and expect the same access to those markets as you would if you meet global standards. So it's better to meet those global standards, early, in a strong, competitive system that acts with integrity than to try to delay it and then end up meeting them in the end.

Paul Davies, Wall Street Journal: ... it was part of my original question ...

Mark Carney: Well, I answered that with the first part which is - this system, the competitiveness of the system, the stability of the system is much bigger, much more robust than any one or two institutions.

George Hay, Reuters Breakingviews: Just in terms of ring fencing, some bankers perhaps unsurprisingly think that it will hurt the competitiveness of UK universal banks. I just wondered from your perspective, does it matter if London or the UK has a UK top tier universal bank based here from a financial stability perspective or any other perspective?

Mark Carney: Let me start that and I'm going to turn to Andrew, and it goes to my tail end of my answer to the last question which is that if you’re a global universal bank you will need to have a credible resolution strategy. Part of having a credible resolution strategy is an ability to ensure that your major retail operations are recoverable. They may not be recovered in resolution, but they can be recovered. And that requires certain structural changes, it requires certain changes to governance, it requires certain changes to the internal financial structure. And that's particularly relevant if you choose a resolution strategy that has multiple points of entry.

Now either of my colleagues can go into more detail on this, but maybe Andrew, since you've just put out the consultation papers on some of this stuff.

Andrew Bailey: Yeah, I would reiterate the point that I think the - what we are seeking is London to be a centre where top tier institutions will do business because it's robust, it's fair, the regulation is transparent. And you see the thing I would add to this is that many of the things that we're having to do at the moment, including the ring fence - including by the way the senior managers regime, which is also important here - and the consequent adjustments that firms are having to go through in the way that their business models, the way they conduct business, the way they organise business and governance, are a response to the fact that in previous times there were activities that were done on an unsound basis and those can't continue.

And we've pointed out a number of times, in response often to comments made in public, that we can't go back to a world which was proved to be fundamentally unsound. So those are the adjustments that are taking place and the ring fences is a part of that.

Now let me just say in response of the Governor's point about how we're implementing it, as I've said many times, it is a detailed set of measures - any structural measure is detailed by nature. Therefore, we're doing essentially two things.

Obviously, with the government there's been legislation, the rules are being made. And then as we've said in the consultations we've put out and the comments we've made, we are working with each institution. And of course there aren't a large number of them but we're working with each institution on the implementation of it as it affects them, because they're each different in that sense. This type of measure gets down to a point where you have to obviously reflect and take into account the differences in the institutions you're dealing with. That's what we're doing and it will be a consistent outcome, but it will reflect the differences in the institutions.

And so there is a very substantial amount of detailed work going on between us and the institutions at the moment to work out how we can effectively put this into practice and that's what we're doing. As the Governor said, we've done one consultation paper. We've said we will put out the second consultation paper in the autumn. And between those two, pretty much all of it will then be transparent.

Jill Treanor, The Guardian: Governor my question is about Greece again, I'm afraid. Assuming the referendum does take place on Sunday as I think is still the current situation, what would your recommendation be to the Greek people about how to vote?

Mark Carney: Well here's a surprise, Jill, I'm not going to make a recommendation to the Greek people. I'll see if Mr Cunliffe would like to volunteer one. I think it's important that the consequences of either vote, a vote in either direction, are known as much as possible in advance. You know there's a great value to clarity for a decision such as this, and we'd urge all sides, all relevant parties both in Europe and in Greece, to make those consequences clear, the next steps as clear as possible, so people know on what they're voting.

Now I'm not going to volunteer an opinion on what those consequences are because we are not an active negotiant, if you will - we're not in these active negotiations between Greece and the European authorities.

Harry Daniels, Live Squawk: Just a question on cyber security. I've seen on the survey here that cyber attacks are the second from bottom risk in terms of the concern for the sector. Are they underestimating the cyber risk out there? I know you talk about looking to recommend further actions in getting systems back up and running once there has been a cyber attack, do you think the banks and the institutions are underestimating the threat?

Mark Carney: Thank you for raising it because it's an important issue and actually, I'm going to ask Jon to expand on that.

Jon Cunliffe: I think I'd say that financial institutions have made a lot of advances on their resilience to cyber. And cyber attacks can come not just from sort of state actors and others, but also banks are very tempting targets for criminals as you'd expect. So they've made a lot of progress.

It's not so much a question of where they've got it, where the risk officers have put it on the survey. What our questionnaire showed was, while there's been progress, we think it's important that cyber is seen at the highest level of governance in these institutions, at board level, and not just seen as a technical issue for technicians to solve.

And some of reinforcing cyber resilience is about the technical aspect, but a lot of it is about the way people operate, the way firms interact with their suppliers and just the culture within a firm. So we've been - one of the things that came out of the questionnaire, which was designed to assess resilience across the system, was precisely that this needs to be seen at a higher level within institutions generally and not just seen as a technician's problem; it's much, much more than that.

Jennifer Ryan, Bloomberg News: This is a question for a risk that is not mentioned as one of the key risks. It's about the low interest rate environment. I wondered if you could talk a little bit about - when will we get to the point that a low interest environment starts to pose financial stability risks? And the fact that it's not one of the key risks, does that mean that there is no financial stability barrier to keeping rates where they are?

Mark Carney: A very good question. I guess the way I would characterise it is there is this backdrop obviously of a low interest rate environment and the prospect of a relatively low interest rate environment for quite some time, right, to use the - translate limiting and gradual into financial stability space.

And what the Committee has done over time is to move down into areas where those types of risk could manifest. So the housing market risk - there's a variety of factors that drive them, but one of them is actually the low rate environment.

And so the question we ask is - what could we do to mitigate some of the housing risks? And I'll remind that our focus on housing is not about prices, and obviously, we can't affect housing supply; it's about the potential build-up of a large cohort of heavily indebted households that will exacerbate, magnify, the economic cycle. In others words we'll have a much deeper recession and much shallower recovery next time round. And so we took steps around that.

When we look at market liquidity, market functioning, one of the issues is, as you probably know, in our view is the low rate environment, the expectations around central bank policy, elements of crowded trades that are the product of that in an environment where you've had these big structural changes, both in terms of how markets function, how much market making there is out there, how - the importance of asset managers, how they manage their liquidity, how all of this interacts and could potentially have bigger dislocations.

So we've moved from that general backdrop into specific issues. And in thinking through macro prudential policies, okay, what should we do to address those issues, if anything? In some cases, market may adjust in by itself and I don't want to pre-judge the Committee.

Monetary policy is the last line of defence against some of these financial stability risks, but it is a line of defence. It doesn't mean that it's been taken off the table. But as our work plan and our actions have demonstrated, there is a variety of macro prudential tools that we can use that we could potentially develop, and we will use to an appropriate degree to try to mitigate things.

Dan Hinge, Central Banking: I presume you were in Basel over the weekend for the BIS meetings. To what extent have you integrated the BIS's analysis into your own financial stability work? You alluded to the low interest rate environment there. Could you perhaps talk about international spillovers a bit more as well?

Mark Carney: I was in Basel; Jon was in Basel as well. Always great to be there and ...

Mark Carney: ... Exactly. We have - you know there is a number of things that we have integrated or have been integrated into the approach here. I mean one of the big things that have been integrated in terms of the BIS's overall approach is that there is an FPC, there is a macro prudential approach to these issues. We're not over burdening monetary policy in the UK, that's because of the institutional structure. So at the moment the MPC is not having to make decisions about how should they set monetary policy - should it be for the inflation target? Or should it be to address some financial stability risks? Because the FPC is active and there is co-ordination. So the institutional structure captures much of the insights of the BIS.

I think one thing where we would have a bit of a difference with the BIS is, at least in terms of how they produce their reports and think about the way the world operates, is there is a - the BIS abstracts from the political economy of central banking, the reality that we have delegated authority, we have clear mandates, we have to be accountable for exercising against those mandates. We can't just stand up one day and decide we're going to tighten policy for the sake of it and move away from very clear either inflation remits or financial stability remits. We have to - quite rightly, we have to justify what we do and we have to be disciplined in how we do it.

Last point on international spillovers, both for financial stability through risk taking channels, through financial market channels and through direct channels. Without question, we think in those terms as well. The principle thing though we can do is to be active and as co-ordinated and open as possible with our colleagues, and we do that in Basel, we do it at the FSB and we do it - Jon and I do it at the European Systemic Risk Board as well, which is actually quite an effective mechanism for some of this stuff and some of the Greek contingency elements came out of that.

Ian King, Sky News: In looking at Greek contagion, do you take any comfort from the fact that we haven't seen violent blowouts in the yields of Eurozone peripherals like Spain, Portugal and Italy this week, whereas had we been in this situation in 2012, we probably would have?

And looking at markets more widely, obviously you highlight a decline in liquidity in fixed income markets as one of your main concerns in terms of risks to stability. I wonder to what extent central banks and regulators around the world have contributed to that fall in liquidity?

Mark Carney: Yeah, I think you're right, I mean things are very different from 2012 and the reaction to events of the last five, six days would have been very different then. And that shows as I say that time has been well spent in both improving the fundamentals in European economies, the European banking system, but also developing these tools and institutions to address contagion.

But the situation is fluid. Defences could be tested; it depends on how things evolve. I wouldn't want to - you know our eyes are wide open on this, we're not - our job is not to be complacent - you wouldn't expect us to be complacent about things. So we'll be pretty fully engaged until the situation is resolved.

Ian King, Sky News: And on the liquidity?

Mark Carney: On the liquidity front for central banks, look we have - some of the regulatory changes, yes, they have reduced liquidity but that is a good thing. There is a more sustainable level of liquidity in these markets. It's going to be less here today, gone tomorrow as a consequence of that.

In terms of our policies, there are - I think it is true that there are a series of positions. We've seen a number of circumstances where a series of positions have been heavily dependent on actual and anticipated central bank action. It's one of the products of being at the zero lower bound I believe, and it's one the reasons why we think about it that there could be an adjustment as central banks start to move off the zero lower bound. But that's something we're preparing for and that's not something that should - it's not something that should in any way incapacitate central banks taking their monetary responsibilities.

Paul Davies, Wall Street Journal: Just on the structure of the financing of the current accounts, obviously you take some comfort from the fact that it's moved into longer term FDI and equity investments and that sort of thing, but are you not concerned that the UK might be subject to some kind of hot money style outflows at some point when macro situations change elsewhere in the world that will affect asset prices quite dramatically? Or do you simply think that even if that were the case the fact that there has not been credit growth during this time means that the impact would be less problematic?

Mark Carney: Yeah well, I guess there's a couple of ways to cut into that. One is that the extent to which your financing is longer term, it's more equity based, more FDI based, but it's not hot money and therefore you can't have the - you know that which is flowing in can't come out.

But it reinforces the importance of having the right - if you have a large annual financing need, in part because your economy is doing better than other economies, in part because your foreign investments are doing more poorly than they used to do, which is the case in the UK. I mean two percentage points of the swing is because of a deterioration in foreign investment performance relative to investment performance in the UK, which tells you something. So if the world gets better, there's an element of self correction there. But just to go back to the main point if you're running a large current account deficit as we are, it puts a premium on having credible macroeconomic frameworks and continuing to be open to trade and investment, without question. Or else financing will be less easy, terms will change, and there will have to be an adjustment in terms of domestic activity.

Phil Aldrick, The Times: You single out buy to let in the housing market as being the - it looks like it's the biggest area of risk there. I just wonder where you could clarify that, that you do believe it's the biggest area of risk in the housing market at the moment. And are you disappointed that last year when you asked for the LTI caps on residential mortgages and you asked for it for buy to let at the same time that it was stripped out by the Treasury - are you disappointed that they didn't apply your request at the time?

Mark Carney: Well let me - a couple of words of context and then I'll ask Jon to expand on the risk. First yeah, there has been an increase in buy to let as a proportion of lending. It's gone up to about 20% of the flow of mortgages, now about 15% or so of the stock, so we're watching that.

Our request, you know it's entirely reasonable for the government to split the request between owner occupied and buy to let, and their intention is to consult on that later towards the end of the year, and we'll look forward to that.

We are in a position, as we are in any financial stability - with any issue in financial stability, where we could make a recommendation related to buy to let. We clearly didn't think that was necessary, we decided there was no decision to make a recommendation with respect to buy to let. We see value in having the power in terms of accountability, speed of action, other aspects, but maybe I'll ask Jon to expand a bit on the risks around it.

John Cunliffe: I mean 15% of the stock going up to 20% of the flow of new mortgages buy to let, that's - at the same time the rental sector is growing as a proportion of the housing sector in the UK due to a number of other changes. But the key thing is what's happening to underwriting standards, what's happening to income, to interest cap or what's happening to LTVs in this sector. Are we seeing signs of those slipping?

And I think we set it out in the report and the underwriting standards seem to be holding but there are more products on the market now which are above a loan to value of 75%. We need to see how that feeds through to the market.

And the other question on buy to let is - how does the buy to let market affect the rest of the housing market as a whole, which is why when we put out our document on the instruments we thought were necessary for the housing market, we thought buy to let was an important part of that because it impacts the general market as well as buy to let investors.

At the moment, we haven't made a recommendation. We could make one. The action we took on owner occupied housing last year was via a recommendation, not by direction powers. I think you need to see the question of the Treasury's consultation, forthcoming consultation, on giving us powers of direction in the buy to let market, not to do with the current conjuncture. As I say, we used a recommendation on owner occupied last year. It's much more to do with - what should the toolkit of the FPC be more generally, and are there cases where we would be better equipped if we had direction powers?

I think the reason the Treasury didn't consult is because there had been quite a large discussion on the owner occupier, because we'd put out our proposals there. We hadn't done something on buy to let, but they've made a commitment to consult on those tools and we're expecting that to happen.

Jennifer Ryan, Bloomberg News: It's a question about your concerns about liquidity and the fact that some instruments might not be adequately priced to give compensation for liquidity risks. Can you just talk a little bit more about that? What should the pricing look like and actually how should that shift sort of take place? And what I'm asking you here is to put this into the context of the latest bond market row and also something more severe such as the taper tantrum in the US. And happy Canada Day.

Mark Carney: Thank you, Jennifer. I was wondering if you were going to remember. That's reason enough to give Jennifer a third question. There's a variety of ways to look at liquidity pricing and we have a few of them detailed in the Report. I mean one of the simpler ones is, as you know, sort of on off the run treasuries, you know the treasury rolls down and that treasury versus the benchmark. How much of a liquidity premium is there and how has that changed relative to history?

And in normal market functioning, not October 15th or the bund tantrum or the taper tantrum, but in normal market functioning, post crisis, that liquidity premium has been very - I'm giving one example, that’s been very small.

And when we look at it we think - well that’s a little curious because we’re putting more liquidity risk into the market, institutions are having to manage more liquidity, dealer inventory sizes have gone down. There is a variety of factors which should lead to, in normal circumstances, quote normal - the new normal if you will, circumstances should lead to slightly higher liquidity premia in those markets.

And in fact - just to take it all the way - that’s one of the reasons, it’s one of many reasons, but it’s one of the reasons why we think equilibrium interest rates will be slightly lower than they would be otherwise. I mean in that case a slight adjustment to them because there would be this liquidity wedge that will be there in the new equilibrium - to speak like an economist, over time. And we haven’t seen that yet.

Now part of that could be the product of being at the zero lower bound and it will start to come in as policy begins to normalise. That’s a benign adjustment. So the volatility associated with that, the increase in liquidity premia that’s associated with that, that’s not to be leaned against, shall we say.

The question is - are there other factors and what do we learn from these intraday shocks? You use the taper tantrum; we could use the bund tantrum, the behaviour on October 15th around the Swiss franc as well. What do we learn from that in terms of market functioning, and are there other aspects that are going to lead to higher liquidity premia apart from just the shift in risk focus?

And to what extent - to finish the thought - should we worry about that? Well we worry about that if we move to these higher liquidity premia or it's quite volatile the level of liquidity premia, and that itself leads to market dislocation and ultimately impedes the flow of capital to the economy via direct and indirect channels.

In the end we have to be disciplined on that. So if it's a period of adjustment it may be better just to let that flow through. But if it's going to mean that markets aren't functioning effectively or reliably in the future, we should do something about it. And we're open minded about how it's going to evolve. We're not settled on how it's going to evolve and therefore open minded about what, if anything, should be done to correct it which is why we're raising the point and having a dialogue.

Jenny Scott: Okay we're out of time. Thanks very much everyone.

END