Bank of England

Financial Stability Report Q&A
30th November 2016

Simon Jack, BBC News: You talked of the orderliness of the UK's exit from the European Union. What do you mean by that? You said it could threaten financial stability. Does that mean the so-called cliff edge if we were not to get a deal done within two years?

And you also talk about the UK's provision of financial services to the rest of the European Union, saying that it's over half of those transactions. Have you put any thought about quantifying what that might mean and how much of that business might be lost, and what the impact of that would be?

Mark Carney: Well, in terms of the transition to the new arrangements, so the move from where we are today to the new relationship with the European Union, as the Prime Minister has said - it's preferable that that process is as smooth and orderly as possible. And there is going to be a transition that either happens at the end of the negotiation of the actual new arrangement or that happens during the process of that negotiation. Transition will happen; it's a question of when and how.

It is preferable that firms know as much as possible about the desired end point - what type of relationship would be there - and as much as possible, as early as possible, about the potential path to that end point.

Firms are making contingency plans for a variety of potential outcomes, as we would expect them to do. As the supervisor of all the banks, all the building societies, all the broker dealers, all the insurance companies, all the reinsurers in the United Kingdom, we have direct line of sight to those contingency plans; we know exactly what they currently intend to do under certain circumstances - or under any circumstance. We talk to the asset management sector, so we have a pretty good idea of what they would do as well.

And having a degree of clarity, when appropriate, will help promote a smooth and orderly transition. Now I would stress that it's still very early days - I said this the other day in testimony to the TSC. It's very early days. Article 50 has not yet been triggered. The timing of those plans and the point at which firms would need to put them into action is still some way off, so there's time to develop greater clarity around the end point and the path. And we fully recognise that these issues are just one piece of a much bigger puzzle that the government has to weigh. There are a broad range of issues around defining that new relationship, and only the government can weigh them up and balance them and prioritise them and execute them.

Now the second part of your one question related to the impact on - I'm going to summarise it as the impact on Europe of this process.

And it is important to recognise that the United Kingdom is apparently effectively the investment banker for Europe. More than half the investment and debt raised is raised in the United Kingdom by firms based in the United Kingdom, quite often to investors based in the United Kingdom. The most important markets, the derivative markets - interest rate, credit derivative markets, the foreign exchange markets - the vast, vast majority of those transaction takes place here. And these activities are crucial for firms in the European real economy, and it's absolutely in the interests of the European Union that there is an orderly transition and that there is continual access to those services. And those services benefit, very importantly, from agglomeration benefits, economies of scale, economies of scope that exist because they are part of the world's leading financial centre that serves not just Europe, but Asia, Africa, the Middle East and the rest of the world. Thanks.

Caroline Binham, Financial Times: Governor, the FPC's assessment that the US election has reinforced existing vulnerabilities, would that assessment have been the same had the results of the election been a win for Hillary Clinton?

Mark Carney: Well, we'll never know, so it's sort of pointless to speculate on that. But perhaps the best thing, Caroline, is to walk through how these dynamics are unfolding and what it says about resilience of the UK financial system - how it comes back to us.

As broad brush, the expectation is that there will be some significant fiscal stimulus by the new US administration. The President Elect has outlined the broad elements of that - tax reform and major tax cut, and infrastructure spending. The details obviously, as with any budget, will come with time through the legislative process. But it's significant fiscal stimulus at a time where the US economy is increasingly operating close to full capacity.

The consequence of that has been an increase in US market interest rates. The first elements of so-called snapback risk (and I'll come back to that) and strengthened US dollar. That has put some pressure on some emerging markets - repatriation of capital from emerging markets flowing back to the centre, if you will, pressure on their currencies - similar to what we had seen at the turn of the year, at the start of this year.

The way I'd look at it - and the FPC looks at is from a UK perspective is that the potential for sharper moves, or continuation of these moves - question is how well prepared is our system for that possibility. This is something we did test a few years ago - it was caught in the 2014 stress tests, this possibility of global interest rates steepening quite rapidly - the yield curve steepening quite rapidly, I should say. And it's something which has elements of this test. And we also in this test have a very sharp weakening in emerging market growth and Chinese growth, where our institutions have quite substantial exposure. Quite naturally - it's the second largest and certainly still the fastest growing economy in the world, so it's natural that they have exposure.

But we've stressed them to those exposures, so we feel quite comfortable that the system has been tested against extreme versions of the types of risks that are beginning to emerge. But we'll obviously watch it with interest.

Harry Daniels, Live Squawk News: Good morning, Governor. How worried are you about the weak profitability eroding bank buffers over time, the medium term, moving forward? How much further do the reforms need to go amongst these banks in order to ward off that risk?

Mark Carney: Well the question's very on-point because it is a concern of both the FPC and the PRA. I referenced very briefly the type of stress tests we're going to perform next year. We're going to perform two, but the second one - the so-called biennial exploratory scenario - something that looks at risks sort of the medium term and beyond. What we intend to look at is exactly this issue, which is - what are the factors affecting the profitability of banks? What if we're in a low interest rate, low growth environment for a period of time? And what steps are the banks taking - are current plans, current strategic plans, consistent with a return to returns and to maintain resilience over the medium to long term? In other words, are they accruing capital or are they gradually shedding capital, and what do they need to do? We're certainly aware that the profitability of core retail banking in the UK is quite solid; it's double digit once you adjust for issues such as misconduct costs.

The profitability of investment banking activities for many of the firms is challenged, but there are steps potentially that can be taken to redress them. And there's also issues in terms of right sizing their footprint, both for the reforms, the structural reforms that are coming with the Independent Commission on Banking, the ringfencing of domestic banks, and firms will have to take into account how they might adjust to our new relationship with the European Union.

So these issues of profitability are not an immediate concern; they're a medium to longer term concern for financial stability, and that's exactly why we will be going through quite a rigorous exercise over the course of next year.

James Burton, the Daily Mail: One of the things you highlight in the Financial Stability Report is the high level of household debt. Could you just talk to us in a bit more detail about how concerned you are about household indebtedness and whether you have any worries that the low Bank Rate's contributing to the borrowing spree we're seeing?

Mark Carney: Yes, thanks, James. Well, the first thing is - I mean we highlight it for a reason because it's something that we watch closely, and this is a risk that has to be managed and we have various tools with which we can manage it.

First, I think it is important - we think it's important to put it into context. The households in the UK have worked hard over the years since the crisis to pay down debt. So they have delivered quite substantially since the peak levels of the crisis - more than 20 percentage points of debt to income. And in that process the number of highly indebted households - and one way of identifying those are people who are paying more than 40% of their income on debt service - historically that's the level at which, if you get a bit of a shock to your income, you lose your job for a bit, some unexpected expense - that's when people have trouble. You know, it's a very low limit of margin error.

That percentage of households - and it's detailed in the Report - has come down quite significantly as well. So people who've worked hard, they are in a much better position.

All that said, debt is relatively high still, and households have been running down their savings, and we're starting to see for the first time a releveraging of households. In other words, the level of household debt is going up.

Now why is that happening? We look at the extent to which it's mortgage debt and it reflects a turnover of the housing stock, and house prices have been going up over time on average, and so that releveraging somewhat is natural. Or to what extent is it consumer credit?

What we're starting to see for the first time is it's the latter, and we're watching that closely and we're looking at the balance between so-called unsecured debt - between auto lending, which really is secured, and what we've been seeing up until now, and the growth in more pure unsecured debt, if you will, credit card type debt, which has started to pick up.

So it's just - it's the early phase of a releveraging following a long period of improvement of the position. But it is one of the reasons why we have kept in place the restrictions on high loan to income mortgages and kept in place the affordability test, so that we don't end up as an economy with a large proportion of households with very high debt to income ratios.

And, you know - you asked the question from a perspective of interest rates. The good thing is that households and businesses, you know, young families starting out who are looking to buy a home, that they can get access to credit and they can get it on quite competitive terms. And that's necessary for the economy, given the headwinds that the economy is facing. The price of that credit is the decision of the Monetary Policy Committee.

The terms around that credit and the underwriting standards associated with that are the interests of the Financial Policy Committee, and we have different tools that can help determine and ensure that the underwriting standards - that those underwriting standards are responsible. In other words, they're going to people who are likely to be able to pay off those debts.

It doesn’t do anybody a favour - either the individual, the Bank or the system as a whole - if we slip into a position where that discipline is lost. And so, what we've done is we've reinforced it. We've used these other tools so we're able to get the right balance of stimulus for the economy during this period of adjustment and ensuring that underwriting standards remain where they are. We're going to remain vigilant around these issues, though, because we have seen this shift.

Siobhan Kennedy,
Channel 4 News:

I wonder, Governor, how worried are you about President Elect Trump enacting some of his threats, if you like, around trade, and what impact that could have on financial stability here and across Europe, specifically NAFTA or tariffs against China?

And, if I may, a part B. Just what happens if we can't get contingency plans and a transitional agreement? I guess - what's the worst case scenario there, because lot s of people are saying that that might not happen?

Mark Carney:

In terms of - we reference the first element of your question, which is around trade, we reference it in the Report, that there is this possibility that the slowdown in the growth of world trade which we have seen over the past few years accelerates, and accelerates because of discrete policy initiatives potentially from the world's largest economy. And while that might not directly affect the United Kingdom, if it slows the pace of global growth and we're an open trading nation - one of the most open nations in the world - it's going to have a knock-on effect through this economy.

Now, it's hard to imagine that the impact of these types of decisions, if they were taken, would be greater than the stress that we did to the global economy in this Report. And just to remind, we ended up having almost a 2% fall in global GDP - 1.9% fall in global GDP - in the Report. So this is more of a slow burn issue, sand in the gears, headwind for the global economy as opposed to a sharper shock - if any of it were to actually materialise. So we think about it, we've crystallised it in terms of the stress tests.

In terms of transition, I think it's important - we think it's important that firms have contingency plans for all possibilities. And the best firms do, the medium firms are on their way and the laggards will get there soon enough. It is still early days, so I wouldn't want to preclude any possible outcome here. I'll just refer back both to my previous answer and to my - I might add on all this - to my public testimony a few weeks ago on the TSC, which went into some detail on these issues around transition.

Jill Treanor, The Guardian: You've talked about the residential mortgage market; I wondered if you could also talk just about buy-to-let, where you've been talking in the past about your concerns about potential risks to financial stability there as well?

Mark Carney: Sure. Actually, I want to ask Jon if he -

Sir Jon Cunliffe: Of course. And we set this out in the section on the housing market in the Report. The buy-to-let market saw a lot of activity in the first quarter of this year, a lot of that to do with people acting in anticipation of the stamp duty changes that were coming in. And since April, the market's been more subdued, which is, as I say, consistent with people brining forward their purchases, and maybe also concerns about further tax changes that are coming in in 2017.

So buy-to-let activity, which was driving much of the increase in mortgages, in transactions and in house prices before the spring, has cooled down.

Our concern about buy-to-let was you had an increasing stock of buy-to-let mortgages, and how would buy-to-let investors actually respond if you got a drop in house prices or if their costs went up? And the concern was that they might respond by trying to exit the market.

So far, and we say this in the Report, there isn't signs that that has happened since the last FSR, and the market - the buy-to-let market - it's subdued, but there aren't particular signs that buy-to-let landlords are putting extra properties on the market. It seems to be calm.

That risk, though, remains, because we don't know how the much larger proportion of buy-to-let landlords that we have now will react in terms of stress. So, it's something we'll watch, but at the moment that hasn't happened.

Mark Carney: If I may just supplement that, which is that that potential amplification, if you will, by buy-to-let owners, in the event that house prices began to fall and then there was a procyclical move of more buy-to-let properties on to the market, that's one of the reasons why we have a 30% house price fall in our stress tests. That's not a prediction, but that's to say, you know, if it went to that extreme and you stressed the asset side of the balance sheet of these banks and building societies, as we should, for both owner occupied and buy-to-let, how does that look in terms of the hit to impairments? Do they have enough capital? Because the worst scenario is that you get these dynamics owner occupied, buy-to-let, and then the banks and building societies themselves making it worse. And so we want to stop it at the banks and building societies, so that it comes back.

Sir Jon Cunliffe: Perhaps, Jill, I could also just add - we did a review earlier in the year of how banks were looking at that market. And we were concerned to discover that the annual growth rate average in people's business plans was around 20%. And we were concerned that that might lead to a dynamic in which, in order to deliver close to their plans or indeed deliver their plans, underwriting standards might be dropped. That's why we published underwriting standards earlier in the year to try and bring that back in somewhat. I think that has been effective. And to Mark's point about what we've done in the stress test, we have applied a very severe stress to the housing market. And in fact, the impairment rate that we drive in the stress test for housing, is around twice what we had in '08/'09, so we feel confident on the basis of that that we have it covered from a bank resilience point of view.

Lucy Meakin, Bloomberg: Just further on the US election, Donald Trump has vowed to roll back financial regulation which raises some questions about his commitment to an international agreement. Is that a financial stability risk at this stage? Is that something you're concerned about?

Mark Carney: Well, two things. First, I think a lot of the focus of the President Elect has - with respect to financial regulation - has focused on domestic banks, on community banks, on the regulatory burden on them, on their ability to finance US companies, US jobs. Entirely understandable. And the focus of global regulation is on banks that are internationally active, transactions across borders. How do we avoid - to put it in real shorthand - how do we avoid a situation where we're importing in the UK risk from abroad because people aren't appropriately capitalising, supervising their financial institutions that are active over here?

And that's why you need common international standards within your own domestic market - domestically focused market. You tailor things appropriately.

But one thing I will say as well about the process - it's an important distinction to make about the process by which we come up with international standards. This is not a treaty-based organisation, there's no big building with thousands of faceless international bureaucrats which come up with these answers. Countries come to the table - the principals of the countries come. They negotiate what's in their common interest. They have to come to consensus on that. And then it's up to them to go back and decide whether or not to implement.

Now, since - through the FSB process - when we get consensus, there is ownership. And since there's an understanding that this is about international finance, cross-border finance, finance where the activities of one country affect the financial stability of another, there is that implementation.

There are ways, if there isn't that implementation, to protect yourself against those risks, and so the process has worked very well. But obviously if things were different, we would take our responsibilities here in the United Kingdom.

Simon Taylor, MLex: Governor, you stress the importance of clarity and predictability for businesses going ahead to Brexit. Talking to people in the City, they seem to say that they need - an average investment bank would need two years in order to plan operations outside the UK if it was necessary. Does that mean, or do you hope or expect, that the Prime Minister will set out very clearly the end point of the negotiations sometime next year in order to hit that 2019 deadline?

Mark Carney: Well I would say, given first off what we know about the plans of the institutions, is that they need less time than that on average. There'll be exceptions here and there but on average they need less time than that to put their plans into effect.

Although the more abrupt the adjustment is, the greater the risk of disruption of financial services particularly to the Continent, the greater the risk of increase in the price of those financial services, particularly again to the Continent, the greater the risk that we end up with a more complex system that makes it tougher to manage risk, tougher to be supervised, tougher to be resolved, tougher to end Too Big to Fail and the greater the risk to the function - you know the underlying liquidity and functioning of markets - which would benefit no one.

No, I think in terms of your biggest question the government is weighing up a very broad range of issues as part of this negotiation. And they will - and only they are placed to make the determination of which priorities to set at what point in time and which path to outline.

The observations that we have made, Jon Cunliffe and myself in testimony, whether to the House of Lords or to the TSC, have been around what is normally the case in every trade deal, in every financial reform, is that there is a period of transition after those deals are agreed. And that is the case for every financial reform to which the European Union is party, and every trade deal to which they are party.

And it’s natural, because when one negotiates, particularly trade arrangements, nothing is agreed until everything is agreed and everything isn't agreed until tends to be the last minute. And then to expect that firms are instantly ready the minute after for those new arrangements forces those firms to make decisions without full information well in advance, which goes to your question.

Martin Arnold, Financial Times: Governor, where does the health of the eurozone banking system rank in your panoply of risks that are out there, particularly with everything that’s going on in Italy at the moment?

And given all of the risks that you presented to the financial system which seem to be rising in your opinion, how disappointing is it that you've had three banks fail the stress tests this year?

Mark Carney: In terms of - well the first thing is that we judge that the principal risks, the main risks, to the UK are global, reference China, and yes, we do reference the risks from the Continent including from parts of the eurozone banking system. Now this is more a real economy risk than it is a financial risk. And let me explain that, which is that you reference the Italian banking system, there are some well known, well documented issues there. The exposure of UK banks to the Italian banks is very low, is very low as a proportion of CET1, Sam it's - ?

Sam Woods: The net exposure to the UK to the Italian financial sector is less than 1% of CET1 for the UK banks.

Mark Carney: Yeah, so the exposure to Italy itself is on the order of 20% of CET1, so that’s exposure to Italian credits as well. So, exposure to the banks extremely low, exposure to Italy very manageable as well. So it’s important to put that into context. But certainly, there are scenarios where there could be strains and that could have knock on effects here.

In terms of the stress tests, this was a very severe stress. You had stress in Asia, you had stress in Europe, you had stress here in the domestic economy, you had knock on effects in the financial system, and we layered on top tail risk scenarios for conduct costs as well that hit the capital.

And in that context, as we were going through this stress test process - and this is almost a year long process - as we were going through the process and the banks were working through this, there were three of the institutions who could see the sort of direction of travel and took actions of their own accord to bolster their capital position. And we've accepted those plans.

So, when we made the final judgements on the stress, which was yesterday, we accept the plans and in the context of those plans are pleased to see that the banks are going to be in position to have resilience consistent with what is a very - consistent with their ability to withstand what is a very severe shock.

And if I can just finish by saying - what does withstand mean? Well withstand means being able to meet the demand for borrowing, for loans, mortgages, business loans, of the economy in that scenario. So the banks actually grow lending despite being hit by all these shocks. And that's what we want to see, we don't want to see - obviously if you have a global recession, you have pressure here, demand for credit goes down. But we don't want people to be in a position where they have a good idea, they want to move to a home and they can't get credit because the banks are too weak because that just perpetuates the situation.

So that's the standard they're being held to and that's the standard they're in a position now to meet.

Sam Woods: Perhaps, Mark, I can just expand very briefly on one thing Mark said. Bringing together the European part of your question and the stress test part of your question, one way to think about that is that we've got 105 billion of impairments in this stress test. Now that includes a severe euro area recession, a drop in GDP of 3%. Of that 105 billion in impairments 5 billion is from the euro area, 51 billion is from the UK. So that gives us some sense of the level of exposure that UK banks will have in the event of a severe recession.

Sir Jon Cunliffe: I just wanted to add one point on the European banks which is mentioned here, which is some of the - or actually the issues to which the Governor referred earlier in the question of the profitability, the ability to accrete capital of UK banks, I mean those issues are also present in the European Union business model issues for banks, the ability - you see it in the share prices - the ability to generate capital, the ability to withstand shocks.

So those issues, those longer-term issues, exist in the euro area as well as in the UK, and that is something the authorities there are aware that they have to tackle. Of course, it makes them more vulnerable to risk.

George Hay,
Reuters Breakingviews: Governor, how confident are you that all the risks in terms of capital are in the stress test, by which I mean in terms of Basel IV and other potential regulatory hits to capital? Do you think they are not as serious as some of the analysts out there are factoring into their models?

Mark Carney: Okay, so this is hopefully the last time I get to say there is no Basel IV, there is the completion of Basel III. And that's important for a couple of reasons. One is there is a reason why we have said, and we said at the equivalent press conference a year ago actually made this point and then we've made it subsequently and had agreement of all the members of the G20 and the steering committee of the Basel Group, that there would be no significant increase in overall capital requirements as a consequence of finishing this process of Basel III.

And the reason why that’s relevant is that we set the overall capital framework several years ago. Basel III I lose track, I think it was 2010, I remember being at the meeting. And then it’s a question of how we allocate that overall budget across different risk categories. So we’re in the very important process of removing excess variability in risk weight.

So, in other words, for similar types of assets - I know you know this, but for general explanation - for similar assets that different banks and different jurisdictions apply, widely varying in some cases risk weights to those assets and therefore in some cases apply very little capital against what are quite similar exposures. So we’re looking to reduce that variability within an overall capital budget for the system as a whole.

Now there will be some institutions - and really it’s a handful of institutions - for whom they’re on one extreme of that spectrum and this process of getting to the right answer if you will is going to mean that their capital is going to increase, but for the system as a whole it will be relatively modest.

In terms of to bring it to this stress test - is that going to cause a big adjustment to the overall capital envelope in the UK? Well there's a couple of reasons why that shouldn’t. First is we, and in the stress test I reference this hurdle rate includes Pillar 2A, so called Pillar 2A. One of the things that Pillar 2A does the way we operate it, the PRA operates it, is to adjust for exactly these types of issues in terms of the models. And so what you will see is that, if we get the right agreement in Basel, is that things will move, if you will, from Pillar 2A to regular capital; they'll move to the - it will change the risk weights on the balance sheet side and it will just be regular capital post Pillar 2A.   And that's the principal reason why one wouldn't expect a big difference.

Now there is another issue which is not adjusted for in the stress test which is coming which is around IFRS 9, which is not yet finalised and could have some impact. But I think you know the banks, the analyst community, ourselves, we all have equal line of sight to that and its timing.

Gemma Acton, CNBC: Governor, so many of the assumptions that are now in the stress test model are outdated, whether that be from the capital strength of certain banks or political and economic dynamics. Are you looking at ways of measuring banks on a more timely and adaptable basis?

Mark Carney: Well, I wouldn't say they're outdated. I mean there's always news and there's always going to be events, and the question is how those events channel through financial markets and then onto banks' balance sheets.

And I would also - I mean our approach is also to use the series of stress tests that we've performed in order to inform our opinion of adequate capital for the banks. So if you look at as we sit here today, and you know, if you read - watch CNBC, I guess, and see what the headlines of today, there'll be headlines about China wealth, we have a big Asian shock in the stress test. There'll be headlines about US policy and where interest rates are going, where longer term interest rates are going; well we had snapback risks in 2014, we have elements of that in this stress test. There'll be headlines about some Continental banks and weakness in Europe; again we have that there. There'll be headlines in some of the papers around consumer borrowing and household debt; again we have those stress here, we have some stresses in commercial real estate where we took a 40% fall in the price of commercial real estate; that's all in the stress.

The trigger for the headline might vary; time moves on. But how it moves as I say through the financial markets and into the actual assets can be quite similar. And if we get the orders of magnitude right, we're stressing the banks appropriately.

I mean, just to give you a sense the capital hit in this stress would have wiped out all of the capital that these same banks had prior to the crisis. So this is a big, big hit to capital. And the fact is that they go through this stress and in our judgement they're still in a position to lend to the real economy and move forward.

So I think one's hard-pressed to be candid. I mean we have to keep doing this and we can always get better and there's different approaches and Harry's question about bank profitability and things, so it's the type of things we have to look at, but we'd be hard pressed to identify a specific situation that is going to yield a bigger shock to the system than the series of shocks we've subjected it to.

Imogen Barrer, ITV News: To the Governor, we've had RBS's plan for the changes that it's going to make. They've said that they may have to go further to raise more capital. Do you see that as likely?

And also given the public stake in RBS and the problems that it's had, how frustrating is it for you to be here today with RBS - not today, you know what I mean.

Mark Carney: I'm very pleased to be here today Imogen. Well I'll say a couple of words on RBS and then I'll ask Sam to supplement. Look that institution has made a lot of progress over the last several years, particularly around its core business franchise - you know its core business which it's increasingly obvious what its business is which is to serve UK households and particularly small and medium sized enterprises and UK businesses. I mean, it kind of lost its way over a number of years and became focused on other things that it didn't do particularly well.

Now its challenge is that it still has legacy issues associated with that. There's misconduct costs, there's impaired assets, they're still working through the so-called non-core assets on which they have made progress. And they have made progress over the course of the year, they have identified and made an announcement today about additional actions they will be taking.

To be clear, and I'll now pass to Sam, they're not talking about raising capital, they're talking about reducing certain types of assets and accreting capital through other activities as opposed to going out and raising capital, to be absolutely clear. And I will say that the orders of magnitude of their plans, what they could realise from their plans, are much bigger than the size of the shortfall in the stress test which is why we're comfortable. But Sam.

Sam Woods: Yeah, so just really to add a little bit more colour to that. You know the bank has got stronger since the last time we ran the test and the best way to bring that to life for you is it went into the last test with a CET1 ratio of 11.1. It went into this one with a CET1 ratio of 15.5, leverage ratio of 5.6. The CET1 ratio going into the test before that was 8.6, so they've moved from 8.6 to 15.5.

So this is a major improvement that has been made; we've been working very hard on that with the team at RBS. Then what's happened this year is we have applied a more severe stress, we've been talking about a number of the metrics that illustrate that point. That hits RBS hard. What is hitting RBS? We've taken a stressed view of the Williams & Glyn cost, we've taken a stressed view of misconduct and then the UK macro scenario hits them quite hard on retail and corporate impairments.

At the same time, we have raised the hurdles. So for RBS we raised the minimum from 4.5 to 6.6 to take account of Pillar 2A as Mark described and there's a systemic reference point of 7.1. So, when you put all that together, they have fallen short of the hurdles and they have some more work to do.

They have submitted, as Mark said, a revised capital plan to us, they've made an announcement today about what that contains. But sort of broad brush, to give you a sense of it, it's further cost cuts, it's further balance sheet cuts which includes run off or sale of some non-core portfolios in their personal and commercial business, and thirdly some actions to reduce the value of undrawn commitments that they carry and have to carry capital against.

Now that plan in my view is fully credible. The PRA Board has looked at it very carefully and reached that view as well. It comfortably covers the shortfall that they had from the test and we have accepted it. We will hold them to delivery.

To your question about frustration, well it has taken a long time to move this bank forward. It's not yet at the end of that remediation but it has come a long distance in the last few years.

Facilitator: Probably got time for one more question. Is there anyone who hasn't had a question yet who would like one?

Paul Davies, Wall Street Journal: So just related to some of the other questions on regulation that we've had, if global cooperation and consensus begins to break down as it might do from the US or from Europe over the Basel III finalisation and so on, I think you mentioned something about how there are ways we could protect ourselves against that. I mean how much of a concern is that and do you think it's likely at this point that that's not working out in the way it was?

Mark Carney: Yeah. Well the best way to answer that is we just had a meeting of the Financial Stability Board plenary, agreed on the work plan for the German presidency of the G20. It is a sensible but ambitious and important work plan and there was absolute consensus behind it. Maybe I'll just spend two minutes on exactly what that is.

First and foremost, we want to assess how well the reforms that have been made, and to some extent implemented for OTC derivatives markets, have worked. So that starts with all the efforts around CCPs and having central clearing. But are those CCPs themselves resilient? Can they be recovered if they have challenges or can they be resolved if those challenges become fatal? And Jon is helping to lead those efforts. It's absolutely central to making sure that derivative market is robust.

But there is a broader question whether we've got the incentives right, capital and margin incentives right between bilateral derivative trades and centrally cleared trades. And so that stock take, that work on CCPs, that stock take on derivatives and I'd remind, you would know this but this is a $600tr notional market, much of which is centred in London so we really do care about this, that stock take will be ready for the German summit in July - the start of July.

Similarly, an overall assessment of all the work we have done moving things out of the shadows and shadow banking into market based finance and making them much more resilient from money market funds to structured vehicles to the work around asset management, which we'll complete next year; the Basel reforms which were referenced earlier and then a host of other elements.

So I would say that right now there continues to be the necessary momentum, in fact quite good momentum about completing these reforms. The focus is increasingly on making sure what we said we were going to do is being done and assessing how well it fits together, making sure that it's coherent. And there will be changes to reforms where appropriate, where they're in conflict with each other, where there's large unintended consequences as opposed to intended consequences. And those changes to reforms in my view and our view are much a sign of strength, not weakness.

This is sort of a mature attitude. If something isn't working as well as it should we should change it. It would be a bit of a miracle if everything was gotten right in a room in Pittsburgh in 2009, but we have the experience and I think the will to get it there.

And the last thing to repeat and an earlier answer, I do think it's important the way the reform process works, the fact that it's national jurisdictions coming together and agreeing or hammering out an agreement, as opposed to having it imposed from top down, is vitally important. And this is all about, as you know, it's all about cross border, it's not about within border, and that creates the incentives to make sure that it continues to move forward.

Jenny Scott: Okay thank you very much for coming everyone, thanks.

END