FINANCIAL STABILITY REPORT PRESS CONFERENCE

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Gareth Ramsay: Okay, so now we'll go to questions. Please wait for the mics and, as always, can you give your name and the organisation you represent, and please keep to just one question each the first time around. We'll start with Joel, and Caroline at the back there afterwards.

Joel Hills: Good morning. Joel Hills from ITV News. Governor, to avoid the disruption you speak of, how long does a transition period need to be, and how soon do we need agreement?

Mark Carney: We have said from the outset that for financial institutions a transition period of between 18 and 24 months would be the minimum necessary. That's what we said in July of 2016. Subsequent to that, we have been reviewing the contingency plans, the transition plans, of all the financial institutions based here, both outbound and inbound, if you will, and I would say that the 24 months period remains a good estimate given where we are today. The timing of achieving a transition agreement? The sooner the better. I won't put an end date on it. Any transition period will be valuable. We signalled back in June of this year some major risks around derivatives, around insurance, around data, around other aspects of the financial system, these crosscutting issues, and we've done a lot of work since then, and provided considerable detail around those risks, and also some potential mitigating actions. Much of this would be made considerably easier by a material transition period, and I think that is increasingly appreciated on both side of the Channel.

Gareth Ramsay: Caroline at the back there.

Caroline Binham: Caroline Binham from the Financial Times. Governor, you said that a disorderly Brexit would be an unlikely event. How did you come to the determination that it would be 'unlikely'?

Mark Carney: On the basis of several things. I think first that the stated intentions of the UK government, and the president of the European Council, and other European leaders is to come to an agreement. Disorderly Brexit, in the words of President Juncker, President Tusk, is in nobody's interest, and all the parties are working towards a form of agreement both on end state and ideally on transition. What we have to do, and you appreciate this, I know, is look at the tail events, what can go wrong regardless of probability, and so that's where we have focused our attention. Our responsibility is to make sure that the core of the system, the major UK banks and building societies, are in a position to have sufficient resilience both in capital, and funding, and business model to be able to withstand the shock of a disorderly Brexit. Related to that is to identify broader issues in the financial sector, that in some cases we can't solve, and the institutions themselves can't solve. No private UK institution, in our view, can solve the issues around derivative contracts. There's just not enough time between now and March 2019 to novate tens and tens of thousands of derivative pairs between UK and EU institutions. For that reason there is a need, in our view, for secondary legislation on contract continuity both in the UK and in the EU, and by surfacing this issue back in the spring, providing more detail, working with European colleagues, working with the Treasury, we're looking to catalyse that action.

I think these issues are increasingly appreciated, so the relative probability, to some extent, Caroline, from an FPC perspective, we don't worry about being too precise about it, because we focus on the tails. This is the clear tail event, and so our job is to identify the key issues and catalyse the right actions.

Gareth Ramsay: Okay, David here, just next to you there, and then Simon in front afterwards.

David Goodman: David Goodman, Bloomberg News. Governor, the report says that the UK may be vulnerable to a reduction in foreign investor appetite for UK assets. Do you see any evidence that the kindness of strangers is already starting to wane following the Brexit vote?

Mark Carney: I would say that one of the things, and it is detailed in the report, is that the funding of the UK current account deficit has shifted over the course of the last eighteen months or so from rundown of UK foreign assets to inflows of foreign capital, so the flows of capital are coming. That's the first point. The second is that there is some evidence of heightened risk premia in the UK, and for example, again, in the report it's detailed, the quite marked diversions between equity risk premia for UK-focused assets, so don't think FTSE 100, but think companies that have three quarters or so of their sales in the UK. The equity risk premia of those assets has gone up, where equity risk premia virtually in every other major financial equity market has gone down in recent years. We're not seeing it in the gilt market. Obviously sterling is heavily affected by the outlook, the prospects for Brexit. So it's a mixed story. The UK continues to have tremendous strength, with a degree of uncertainty about the most important driver of medium-term prosperity. I would underscore though, in terms of maintaining foreign investor interest here, from a Bank of England perspective our job is to ensure monetary and financial stability in whatever scenarios, and you build off that bedrock to continue to see foreign inflows, as we should.

Simon Jack: Simon Jack, BBC News. From what you've said, you've looked at a disorderly Brexit and said, 'Is it any worse than the economic stresses we're already putting on the banks.' For that to happen, you need to have compared one against the other. Can you share with us what the economic impact of a disorderly Brexit actually would be?

Mark Carney: It's no worse. I think that's the important point. You can look at the stress scenario here with respect to actual losses to the banks. It is not a worse scenario. Let me expand on that a bit. First, I think we have to appreciate just how severe the stress test is we ran the banks through, 4.7% fall in UK GDP. That's the peak fall in the recession. The level fall is much bigger there. The level of GDP is 7%-plus, lower than it would have been in the baseline scenario. If you take that relative to the spring of 2016, the forecasted spring of 2016, you're approaching something on the order of 10% lower level of GDP three, four years out than we had projected prior to the referendum. It's a material different track. More than doubling of unemployment at 9.5%, a very sharp increase in bank rate, to go back to David's question a moment ago, occasioned by much higher risk premia on UK assets, so gilt yields go up sharply, sterling falls by more than 25% above and beyond the fall that we've already experienced, we have to raise bank rate. So it's quite a severe recession, and a big hit, as a consequence, to banks. The £50 billion losses they make over the first two years of the stress are comparable to losses in the first two years of the financial crisis.

Now, when we look at a disorderly Brexit, we've had to look at a series of possible things that could happen, as opposed to one just economic scenario.

What we've done as a committee is we've looked at the various challenges we could face if there's no agreement. They start from moving to WTO trade rules, the tariff impacts of that. They can extend to loss of authorisation for various products or services, notably financial services obviously, but other services and products into the EU, which would have a bigger impact than just the tariff impact. They can go to logistical challenges, which we also looked at in terms of not just airlines but custom challenges. They can extend to some of these crosscutting issues that we just raised on derivatives, those crystallising, and so you have risk premia that happen in those markets, and also extend to a loss of financial services in the EU, because UK-based entities haven't completed the transition, don't have the authorisations into the EU, and then we get the spillback of those negatives. We've looked at those aspects and then looked at various combinations of those, and in all cases we end up inside the envelope of what's in the stress test, of the losses that are inside the stress test. I would use that as an outer bound, and that's how the FPC came to its judgement. Let's be clear, it's a big call because we will be here in March 2019 in the unlikely event that we end up in a situation without a transition deal, without an agreement, so we're putting our money where our mouth is.

We have a system, and I'll finish with this, that has tier one capital that is three times what it was headed into the crisis, where the asset quality is much higher, where the institutions have been consistently stressed against similar events. So events where you don't just have higher unemployment and a recession, and therefore asset quality problems because of that, but you have quite extreme moves in sterling, and the gilt curve, and other asset prices. You have traded risk losses, you have counterparty fails, you have a series of those events happening, and that's what the institutions have been getting ready for. It happens to put them in a better position for Brexit, but this is not a good scenario. It's a scenario we are all working to avoid, because it has some quite material economic costs even if the financial system continues to function through it.

Gareth Ramsay: At the front here, and then Martin at the back.

Andrew MacAskill: Andrew MacAskill from Reuters. This is probably best directed to Deputy Governor Sam Woods. To help banks plan for Brexit, one of the things they'll end to know is how they're regulated, so will the branches of EU banks be forced to become subsidiaries?

Sam Woods: We've included a comment in the report today, consistent with what we've been saying publically, that we will clarify our position on that question by the end of the year. The reason that that is an awkward decision for us is that the heart of the decision, for us as a regulator, whether you authorise an entity as a branch or a subsidiary, is the level of cooperation and engagement you have with the regulators on the other side. It is plain that Brexit negotiations are touching on all aspects of the relationship between the UK and the EU 27, and therefore it's an unusual situation where that is relevant. We do though need to make the position clear, because of the sheer volume of applications we may receive, and because of the time that we think it will take to work through an authorisation process. Our view is the imperative is to get that out by the end of the year. We've been using this period that we're in currently-, to give you a sense of it, there are 160 branches here from the EU, that's 75 banks and 85 insurance companies. We've been getting them all up to speed on what it will take to be authorised, either in branch or subsidiary form. We haven't been sitting on our hands, we've been using that time, but we do intend to move the ball forward before Christmas.

Martin Arnold: Martin Arnold from the FT. Mark, could you tell us about next year's stress tests, and whether you'll specifically model a scenario of a hard Brexit, of a disorderly Brexit?

Mark Carney: Yes, Martin, I think the short answer is, 'No,' for a couple of reasons. By the time of next year, it's a bit late if we're going to end up with hard Brexit. We have, we think, the information we need from not just this stress test but the three years prior, the crosscutting issues which we've identified, the contingency plans of outbound and inbound firms. Sam just spoke to inbound firms.

We're working with the institutions on the specific issues for them, and we're putting in the public domain what we call the 'crosscutting issues' that affect everybody in the financial services. By the way, one of the crosscutting issues which I didn't add to my list relates to derivatives clearing, a series of issues around derivatives clearing, which is detailed as well in the report, the importance of authorisations there. So Martin, I would put it more in the camp of, 'We're not looking at a theoretical scenario. We're spending time, we're continuing what we've been doing to prepare for that possibility,' because I think that's what people expect both in the financial sector, but more broadly. They have lots of things to worry about if we end up in that unhappy event, which is not what we think will happen. If we end up there, we've got to use all the time to prepare for it, which is what we're doing.

Gareth Ramsay: Okay, we'll have James here at the front and then Harry.

James Burton: Good morning Governor, James Burton from the Daily Mail. The documents today talk about £30 million European insurance policies being at risk here, and they talk about European businesses being unable to access the interest swaps market in London, so it sounds like a 'no deal' Brexit would be very disruptive for the European Union as well. Could you give some colour around how disruptive that could be, and say whether or not you think regulators and politicians on the Continent realise the risks that they face?

Mark Carney: I think, James, that I'll have John expand a bit on this. There is an increased appreciation of these issues on the Continent. We, as you would expect, are in regular dialogue with our colleagues there, whether it's on the insurance side, the banking side, or the central bank. You've seen in recent weeks actually some of the banking authorities highlighting more clearly the issues around derivatives. We think it's important to have in the public domain, and we have talked to the insurance authorities there. These issues around insurance, they are solvable issues, but secondary (TC: 00:30:00) legislation, authorisations, those types of things take time, and they take time during a period where people are having to do a number of other things related to developing this new relationship. Just before I pass to John, I said we're spending 'all available time preparing'. That's not right. We're spending a substantial proportion of time preparing, but we're spending a lot of time trying to work out what the future cooperative arrangements would be. Apropos of what Sam was saying around authorisations of firms coming in, our predisposition is to expect that we will continue a highly cooperative relationship with Europe. Now, whether or not that is realised depends of course on what agreement is ultimately struck, but we're predisposed to expect that, and we're thinking of different ways to do that, while at the same time, as per your question, James, alerting those authorities to the issues we see that affect them. John?

Jon Cunliffe: Yes, I'll just say a word about clearing. Very high proportion, 80%, 90% of clearing in Euro products and interest rate swaps is done in London. Under current European legislation, European firms can only deal with clearing houses outside the European Union that have been recognised. If there is no recognition of UK clearing houses, in some cases European banks will just simply not be able to deal with UK clearing houses. In other cases they'll have to hold more capital, so a very large stock of existing contracts. Some of them take 30 years to run off. Some absent some form of agreement, given that existing contracts have to be maintained, European banks could face large capital charges, or just be unable to service their contracts. Those things are solvable. You've seen the governors mention the reports coming out of some of the European supervisory authorities. Those things are solvable on the European side. I think there's just a growing recognition that they need to be dealt with for the sake of the European counterparties.

Harry Daniels: Harry Daniels from LiveSquawk News. Who bares the biggest burden from a disorderly Brexit, the households or the banks, and what would be the reaction function of the FPC or the Bank in general to that?

Mark Carney: What we want is that the banks bear the biggest burden, if you will. Actually, it depends on how you define 'burden'. A disorderly Brexit would have economic consequences, in the short-term, in our view, for growth, slower growth, higher unemployment, higher inflation, lower sterling, higher interest rates, all things being equal. That's the direction, those are the broader directions. In order that those effects are not amplified, it will be necessary for the banks to draw on some of the capital buffers that they have built up over the course of the past decade. That's why buffers are there, they're there to be used in difficult times. In that respect, there's a 'burden' on the banks, but it's the banks using their capital in order to be in position to satisfy the demands of households and businesses for credit. So what we want, and we think we put the financial system in a position to do, is that people who could get mortgages prior to that event could still get mortgages, that if you have a good business idea you could still get it funded post Brexit, because the banks have the wherewithal to do so. In that regard, we're looking to minimise the impact on households. I want to be clear, what that means though is that in the event of a sharp, disorderly Brexit, there will be an economic impact on households, on businesses. There will be lost markets for a period before new markets are found, and there will be some pain associated with that.

This about dampening that, minimising it, doing what we can in terms of the financial sector, and I think the message from the FPC is that we have been very focused on this, alongside with the PRA over time. We've built up these real reserves of strength in the banking system, they're there to be used. In this unlikely event they will be used, and that will help the economy adjust as quickly as possible, and move forward from that point.

Gareth Ramsay: Paul at the back here and then Jill.

Paul Davies: Hello there, Paul Davies from the Wall Street Journal. A quick non-Brexit question for. You've got a nice section on leverage loans in here. I'm just wondering whether you have concerns about the growth and exposure to private and liquid assets more broadly, particularly among insurers and pension funds, and how shareholders and policyholders might react in times when those evaluations come under question, evaluations of those assets.

Mark Carney: I'll start, and then I'll pass to John. You're right, it has been a very sharp growth in the leverage loan market, outside the UK more than into the UK, to the extent to which two of our peers, if you will, as you know, have provided guidance in terms of the overall credit metrics, the debt to EBITDA of six times on leverage loans. about two thirds of the leverage loan market is now subject to such guidance. Also it happens to be roughly two thirds of the leverage loan market is dependent, if you will, or is refinanced through the CLO market, which is broadening the end investor base in a net positive way, but any time you see any significant developments like that, coupled with quite marked reductions certainly in covenants-, it's effectively totally a covenant-light market, which adds to the risk. Any times you see those types of development you get concerned. The net exposure into the UK, at least in the core of the banking system, is quite modest, a tenth or so of total capital from recollections detailed there. John, do you want to talk about the broader-,

Jon Cunliffe: Yes, it has been growing in the UK, but the UK's still quite a small part of the global market. I think it's about 10% of banks corporate lending in the UK, and it's about 10% of company financing, and UK companies now, if you look at their debt to profit, in as good a position as they've been since 1998. It was covered in the stress test. We stressed the leverage loans in the pipeline, and I think they took nearly a 20% loss rate, about £2.5 billion of losses, and corporate lending is stressed very heavily as a whole in the stress test, probably about another £50 billion worth of losses in the first couple of years, and loss rates going up to just below 10%, I think. So it's been stressed in the stress test. We've looked at it, and the UK banks have come through. None of them have needed to strengthen their capital position, but clearly it's a fast developing market, and it's a thing that we watch, but we haven't seen the need yet to follow either the US or the EU authorities.

Gareth Ramsay: Okay, Jill at the back.

Jill Treanor: Hello, it's Jill Treanor from The Guardian. I had a quick question about the mortgage market. In the financial stability review you talk about continued easing in price and non-price terms in the mortgage market, and that this could increase the number of vulnerable households in the event of rate rises and other situations. I wondered if you're concerned about what's going on in the mortgage market now?

Mark Carney: Let me start. The FPC has put in place, of the course of the last few years, several protections in the mortgage market, and the first is a portfolio flow restriction, so the proportion of high loan-to-income mortgages that banks and building societies can underwrite is restricted to 15% of new mortgages. What we're seeing is that the actual numbers are around 10%, so we have a restriction. The institutions are quite inside that. There is a bit of a bunching in the four to four and a half range which we're watching, but overall we have structured that, and we think it's working quite well. We've structured it in a way that it provides enough room for first time buyers, people in higher-valued markets to get into the market, but not to have a broader deterioration in underwriting standards as a consequence. The second thing is that we have institution stress for owner-occupied mortgages at 300 basis points, 3% rate above the so-called reversion rate, so we're helping to ensure that once people come off the fixed-price deals, that they're able, in a more difficult economic environment, if that's the case, to continue to service their debts. That also is working well. I think the interesting thing that comes out of the stress test, where we've had slightly greater concern, has been around buy-to-let, and the underwriting standards there. We've also put some protections in on that.

It's detailed in the pages in there, but the losses on buy-to-let are multiple, in fact they're four and a half times the losses on owner occupied mortgages in this stress. If you look at last year's stress test, which had a different rate environment, different scenarios, it was about two and a half times. That gives us a bit of a sense in terms of the relative riskiness. Just to summarise, when we look at the mortgage markets, obviously the biggest thing on most banks' balance sheets is clearly, far and away for most people who are fortunate enough to own a home, it's their biggest liability. The British people pay their mortgage, pay off their mortgage, so the risk to banks of these mortgages is actually not that high. The protections we put in place in terms of underwriting standards seem to be effective as we would expect them to be, and as a consequence people who are coming into the mortgage market are not getting themselves in a position where they're overextended in general, even against adverse environments. I don't know, Sam, if you just want to-,

Sam Woods: Let me just add a tiny bit. There are a couple of useful things in the report to give some colour to that. We look at it through the effect on the banks, how big the impact would be of these things going wrong. I think it's quite striking that the impairment rate that we have for mortgages across five years is 1.7%, so that is roughly £17 billion of losses out of £70 billion total that we think the UK banks would make in gross losses on UK lending, compared for instance to a five-year impairment rate of 28% for consumer credit. That gives you £29 billion, even though that is only 7% of lending. So I think the effect of all the various things we have been doing, which have been designed to avoid a disproportionately high tail of highly indebted household who could cause the banks severe losses, as well as impact the economy more directly through their reduced spending, is we are seeing the effect of those in this test with that level of impairments, despite the fact that rates are going up to 4% and unemployment's going up to 9.5%.

Gareth Ramsay: Okay, at the front here and then Ian at the back there.

Anna Stewart: Anna Stewart, CNN. Mr Carney, are banks too confident or complacent that they'll be able to use mechanisms like back-to-back trading and reverse solicitation to do business in the EU after Brexit? What's your advice to them?

Mark Carney: I think first off the ability of banks to employ those strategies is not solely in our gift. So to go specifically to back-to-back structures, if an institution has opened up a new subsidiary somewhere on the Continent and is putting the risk back into the London-based entity, where the capital, and the collateral, and the people, and the risk managers are, that might be a sensible, expedient short-term strategy. It's unlikely to be a sustainable strategy, unless we have what we would recommend, unless we have a negotiated agreement that permits continued access for certain wholesale activities, so it's a strategy that is very much dependent on the final deal, and in the event of, if I can use this term, a very 'narrow' agreement for financial services, it's unlikely to be a sustainable equilibrium. It's part of the reason why, and there are various estimates, and would rather not be pinned down on any precise point in the short and medium-term, there's quite difference in terms of people's estimates of how many jobs or assets would move in the short-term, versus, let's say, five years out, because those types of strategies will tend to be less sustainable.

Iain Withers: Hello, Ian Withers from The Telegraph. You said you might need to increase capital requirements again next year. Can you just comment on how the level of risk to the financial system compares historically, and also do you think investors will have to get used to low or no dividends in the future? Thank you.

Mark Carney: Two questions in that. I'll let Sam advise the banks on dividend policy, and in terms of the FPC's reconsideration of the countercyclical buffer next year. Let me say, first of all, on the risk environment, we view the overall risk environment apart from Brexit as being standard. So there are pockets of risk, consumer credit is a pocket of risk, it's been growing quite rapidly. It accounts, Sam just referenced, for more greater impairments in the stress test than the mortgage books which are substantially bigger, almost seven times bigger. There's a pocket of risk there, but in general, overall credit growth is roughly a little higher than nominal GDP, but not much. The levels of debt service, households that have high debt service, very low relative to historic averages, the same for corporate. Again, both are detailed in the reports, but it would take quite substantial increases in the overall level of interest rates before they even got back to historic averages, nothing like what's projected in the markets for passive interest rates. The overall risk-taking environment is standard, apart from Brexit. We've made the separate judgement in terms of Brexit relative to the stress test. The FPC has to consider actually, by law, every corridor, whether or not the countercyclical buffer is at the right level, so we always will be reconsidering.

The reason we flagged the reconsideration in the New Year is that in our judgement, as we've said, the banks are resilient to a disorderly Brexit. The question is, 'What if something else is likely to happen at the same time?' That's what we mean by 'evolution of the risk environment'. As we get into 2018 we have to assess risk globally, risk in terms of misconduct cost, risk in terms of elevated asset prices, and make a judgement about what the joint probability is. If you will, 'We have Brexit covered. What about these other issues, and is it possible they may crystallise in the relatively near term?' You can make your own judgement about how likely that would be, but we will definitely do the reassessment.

Gareth Ramsay: Just next door, and then Katherine.

Jasper Jolly: Hello, Jasper Jolly from City A.M. Do you think that banks are being too complacent faced with the long-term fintech challenges, thinking that they can cut costs while preserving market share?

Mark Carney: I think that's the challenge to them. What's interesting in this exploratory scenario, which is detailed in the stress test document, is we asked them two questions. In some respects we set them a tough exam question. One was, 'What if interest rates stay low, we stay in a low interest rate, low-growth environment, how are you going to manage that? What do you think investors are going to demand of you in terms of return on equity, and how are you going to exceed that, and also by the way, to your question, 'Be aware that there are these bigger developments in new financial technologies in the potential competitive environment?' In some respects, they took the good from financial technology and said that will help drive down their costs and meet a lower return on equity hurdle rate than they currently have, than they're currently targeting, because their assumption is that in a lower-growth environment, investor expectations will be lower for their returns. I'm not saying it's wrong, but our observations are twofold. One is to say it's not necessarily the case that if, collectively, the global economy is stuck in a low-growth environment, or the UK economy is in a low-growth environment, that investor expectations for return on equity will be lower.

If you have an expectation as an investor that something bad may happen, that being in a low-growth environment makes a bad outcome more likely, you actually have a higher return on equity objective, because you're insulating against that. Also if the environment as a whole is more uncertain, the hurdle rate goes up. Simple option pricing will tell you that. So it's not clear that just because there's low growth that it's a low return on equity, it's expected. That's part of the problem with being in a low-growth environment. You can potentially get in this trap, if you will, that's self-reinforcing. That's the first point. You can take both sides of that argument, but it at least bears consideration. The second point, directly to your question around fintech, is that the basic assumption of the banks is that the cost of acquiring new customers, or keeping their existing customers, goes down because of the application of these technologies. It's detailed a bit in the report, that actually from a consumer perspective, this environment is potentially a pretty exciting environment, because it's open banking, which starts next year. It's going to mean that it's going to be a lot easier for me to switch my accounts from one financial services provider to another.

There's a series of other developments which will reinforce that, and it's possible that at least some banks will become not front-facing to the customer, but more utilities behind the customer, that the customer, if you will, will be serviced, or the core relationship will be by a non bank that effectively plays off banks against each other for the provision of deposit or lending services. From our perspective, we're not looking to protect the banks here. From our perspective that's fine, but the banks need a different capital, liquidity and cost structure in that environment. It may be more costly to keep people, the liquidity aspects may be more volatile, people may jump in and out of different institutions, all to benefit of the end consumer, but that changes the structure, and that's the conversation, and those are some of the strategic considerations that some of the institutions might want to think through a little more generally. Jon, do you want to add something?

Jon Cunliffe: Just to say that in the stress we gave them some assumptions about what would happen to income from interest rates because of more competition, but there are other areas like the ability to cross-sell, like the need to retain liquidity, like the possibility of cyber which might just put up the cost of this, which also, in the round, need to be taken into account, and those are things they're going to have to think about, I think, going forward.

Katherine Griffiths: Katherine Griffiths from The Times. Apologies, a very small diversion from stress testing. Given the importance of the London Stock Exchange to the City, how concerned are you about the events there at the moment, the disagreements within its board? Thanks.

Mark Carney: Let me say this, which is that obviously we take an interest in this. The clearing operations of London Stock Exchange Group, this is systemic infrastructure, and it's incredibly important to not just the UK, not just European, but to global derivative markets, and the stock exchange plays obviously an incredibly important role. I think Xavier Rolet, the CEO of the LSE, has made an extraordinary contribution over the course of the last nine years, I guess, as CEO. Everything comes to an end. We were apprised of the succession plan before it was announced, the agreed succession plan before it was announced. We've stayed close to the situation. In some respects I'm a bit mystified by the debate, because we knew about the succession plan, we've stayed close to the situation. I can't envision a circumstance where the CEO stays on beyond the agreed period, and so I think it's in the interest of all parties involved that clarity is provided as soon as possible.

Gareth Ramsay: Okay, just in front and then next door, please.

Max Colchester: Hello, Max Colchester from the Wall Street Journal. A question about international banks and their exposure to the UK financial system. Have you seen evidence of them cutting their exposure in the lead up to Brexit, and can you quantify this in any way?

Mark Carney: Do you want to speak to the EBA stuff?

Jon Cunliffe: If you're referring to what we saw in the EBA report that came out a few days ago, we're looking at the EBA numbers, but we haven't seen a large impact of that sort. I'd say just going back to that earlier question on the capital account, what we have seen since the beginning of 2016 is fairly substantial flows into the UK. The bulk of that's been far and direct investment, I think about £375 billion. It's been across the board, so we'll have to have a look at what the EBA have identified, but generally speaking we haven't identified something of that nature. A lot of it might just be to do with derivatives, contracts, and some of it might be to do with valuation effects, which you would expert because of the depreciation of sterling, they will have changed the numbers.

Gareth Ramsay: Catherine?

Cat Contiguglia: Hello, Cat Contiguglia from Politico. I have a question for Mr Woods. You said in testimony to lawmakers that the best way to frame a post-Brexit deal in financial services would be at a trade deal. How realistic do you think that outcome is?

Sam Woods: I want to echo what Mark said earlier, which is I don't think it's our job to make a central projection of where the Brexit negotiations are going to get to. It's our job to think about how we make sure the financial system is robust to an outcome in which our preferred objective, which is the one that you described, is not achieved. That's, I think, the significance of what we're saying today, that in our assessment the severity of this scenario through which we put the banks, for the purposes of the ACS, is outside what we could reasonably expect to be the severity of a scenario which would result from a disorderly Brexit, including not being able to achieve an FTA of the kind that you describe. So our focus is there, we of course hope that such an agreement can be reached, and we hope very strongly that an agreement on a transitional can be reached, but I think it's our job to worry about the downside and protect the UK financial system against the downside.

Mark Carney: Can I just supplement that, and link it to the previous question about back-to-back, and those exposures? The nature of what Sam and his colleagues do at the PRA is to manage, oversee basically the most complex bit of the global financial system. With respect to Europe, alongside with Jon on the financial market and infrastructure side, the most tightly intertwined bit of the most complex bit of the financial system. It is an ecosystem that's in place that underwrites more than half the debt, that does all the derivative transactions in effect for Europe, underwrites half the equity that is absolutely integral to the financing of the European Union. It is absolutely in the interests of all parties, but very much in the interests of Europe, that elements of that degree of close cooperation are maintained following Brexit. Now, there are lots of different models to do that, it's entirely in the hands of those who are negotiating the agreement, and we and our European colleagues will faithfully implement whatever is agreed, I think we should underscore, because, quite rightly, we're focused today on making sure that we're prepared for the tail event of no agreement, no transition. We should underscore how undesirable that is for everybody concerned, and how the posture of this institution and its constituent parts is very much towards finding solutions where the political masters decree, finding solutions to maintain that system which serves both sides of the Channel extremely well.

Gareth Ramsay: I think we've got time for one last question.

Hugo Coelho: Question for Sam Woods – Hugo Coelho, MLEX. The decision on the authorisation of EU banks, can it have an impact on the branches of third country banks that are already in the UK? US banks, Japanese banks that are operating through branches, will they be affected?

Sam Woods: There are two ways of thinking about that question. One is, 'Do we expect a change in our stance towards the existing operations of third country banks here in the UK, or a change of a kind that could require changes to how they operate?' I would encourage you to think of the probability of that as low. The other way to think about it is, 'Is there a possibility that, in reaction to Brexit of one shape or another, the financial system which Mark was describing, which we oversee, reshapes itself across the border, including third country banks reshaping themselves across the border? Are there ways that that reshaping could occur that might present some risks to our objective, and we might therefore need to be clear about how we would react to such changes?' Then that is more probable.

Gareth Ramsay: Okay, I think that brings us to the end of the press conference. Thank you very much ladies and gentlemen.