Financial Stability Report Press Conference

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Ed Conway, Sky: Thanks. Governor, I just remember one of the things you talked about early on in the pandemic is the risk that the banks might not play their part lending out into the wider economy to support the recovery. I just wonder in hindsight, did that come to pass or not? And do you think in hindsight that, as such, those guardrails on dividends were necessary, or was that overkill?

Andrew Bailey: Well, I'll start. I think Sam will want to come in. I mean you're absolutely right to recall that, Ed, because of course a year ago we were in an unprecedented situation. I think it's very important not to apply a judgement of hindsight to the step we took on dividends last year. So, my view very much is that it remains the case that that was a very appropriate step to take in the situation we faced. Now, banks did respond to terms of lending and the flow of credit was substantial last year and of course it was necessarily so and that was a mixture of banks own lending and lending guaranteed by the government. That was appropriate because there was a mixture of needs there. So, I must say that my judgement is that the policy framework was entirely appropriate and, you know, we mustn't forget the emergency situation and the situation we were in a year ago. Sam, do you want to?

Sam Woods: Yes, thanks Andrew, and morning, Ed. Yes, I think the decision we took back in March of last year was entirely appropriate. Remember at that time all we knew was that the economy was about to suffer the worst downturn that we'd experienced in hundreds of years. I think it would've been totally inappropriate to let seven billion pounds in capital walk out of the banking system with that knowledge and really nothing much else at that point. But, we've always been clear that we wanted to come back to our normal approach to capital setting and dividends and we described in December the guardrails we put in place as temporary and as a stepping stone back to normality and said we'd come out again now in July informed by the stress test. So, where we find ourselves today is we pay particular attention to three things. The first is bank capital positions today and their expected outlook. Now, bank capital positions today are as high as they've ever been, partly due to various things that we've put in place but also due largely to the way that the government support has shielded the system from some of the pain which it may otherwise have taken. We think that there will be some head winds as those government support programmes roll off over the next period but they're completely manageable.

We've also, of course, had a close look at the interim results from our stress test and those do show clearly that the banking system could keep lending to the economy through a downturn much worse than what we're expecting to occur and then also developments in the economy which has bounced back pretty well and on our central expectations, you know, will continue to function well, particularly in the way that matters to banks which is unemployment staying low and house prices remaining at a reasonable place. So, you put that all together Ed and I think it's a fairly easy decision again, rather like that first decision that was clear I think that

we should stop dividends going out and as of now we don't have that same case and therefore, we should do what we said and take the guardrails off with immediate effect which is what we're doing.

Andrew Bailey: It's worth adding, Ed, that one of the measures that we always allow in the, so-called, management response to the stress test findings is where the bank has this policy in place is to reduce dividends. In other words, when we do the initial run of any stress test, we allow the bank to say what measures it could plausibly take to offset the effect of the stress test and where a bank has a flexible dividend policy in place, as they should by the way, then we allow that. So, in many ways what we did last year was to essentially say we want that policy in place upfront.

Faisal Islam, BBC: Governor, can I just ask, it seems the general message of the report is despite some fairly extraordinary numbers, house price growth and the like, it's, sort of, playing down that there's any financial systemic risk from those developments, even given that we're having this run off of the support given by government to the household and financial sector.

Andrew Bailey: Well, I'll bring Jon in. Let me just re-emphasise what I did say in my opening remarks that we do expect and are prepared for and want the financial systems to be prepared for the fact that households and businesses will need further support from the financial system as the recovery continues. I also highlighted, and it's an important point, that of course the distribution of indebtedness effects, particularly in the corporate sector, is uneven. I made a particular point about SMEs, a particular point about as we note from daily news coverage that obviously COVID has had an uneven effect on different sectors of the economy. So, it's important that that support remains in place. Jon, do you want to?

Jon Cunliffe: Yes, I don't know Faisal if part of your question was also about the housing market but I think the point I made there is that we've seen very strong growth in house prices and transactions over the last nine months or so. That's been driven clearly in part by government support and that government support is being tapered out, but it's also possible, and you see this in other countries as well, that there are structural factors that are driving the housing market and we're keeping a very close eye on the extent to which a more active housing market with fast rising prices translates into household indebtedness which is the thing we're worried about and aggregate vulnerability in the economy. But that hasn't happened so far, but as the governor said in his introductory remarks, that's why the FPCs housing tools are there to guard against the housing boom turning into a big increase in indebtedness which leaves us all more vulnerable and there's a financial stability risk there. So, we're by no means complacent about that but there are temporary factors as well and we just need to see how the market plays out as the support is withdrawn.

Katherine Griffiths, The Times: Hi, all. I just wonder, you're giving bank boards back their freedom to determine their own dividends. Do you think that they should also be able to determine their own pay structures? Should the UK revisit the bonus cap? Thanks.

Andrew Bailey: Well, we've obviously got quite an elaborate set of remuneration rules in place, some of which come from Europe and some of which are our own domestic rules that we put in place after the financial crisis. We don't have any immediate plans to review those but I mean like all of our rules we keep them under scrutiny at all times. Sam, do you want to elaborate on that?

Sam Woods: Just briefly, I mean we expect bank boards to be appropriately prudent in distributions they make, both to their shareholders and to their staff given the vital role that banks are going to play in supporting the recovery. So, that is a message that we're giving to the banks but we think it's quite important to get back to a more normal setting for these which, as Andrew says, includes quite a lot of quite strong regulation about deferral and clawback and malice and things of those kinds but does leave those decisions, yes, with the boards of banks.

Andrew Bailey: I think it's interesting, Katherine, if I could just make another observation over the last, sort of, decade or more. I mean, Sam and I were both involved in the early implementation of particularly as he said, the malice and deferral rules and the banks were quite resistant initially to them. I have to say, my general sense over the last decade, is that they've, sort of, come round to the view that actually these tools can be quite helpful to them as part of their own, as Sam rightly says, their own setting of remuneration policies and it is their own setting of remuneration policies because it's very important that they take the responsibility for doing that.

Stephen Morris, Financial Times: Good morning everyone. I'm just wondering if you can say a little bit about Brexit. In your December report, obviously the threat of a no deal was flagged up as one of the major things that you were looking at and yet it doesn't really feature in, at least, the short version of the report today. Where are you thinking about it at the moment? It looks like equivalence has been a goal that's been given up on by the UK government. Where does it sit in terms of the future in your list of risks?

Andrew Bailey: Well, Jon will come in on this as well. First of all let me say that the checklist that we'd had in place for quite a while actually, up until the December report, was a checklist we were using up until the end of the transitional arrangements and much of that checklist is no longer applicable actually in terms of the world we're now in. But you're right, of course there are issues that are applicable and we watch them carefully and you'll see that in the record of the FPC, as well as in the FSR. I mean on equivalence I think it's fair to say that nothing really has moved forwards, we believe strongly in open markets and we believe strongly in robust global international standards. We are a strong upholder of those. By the way, we're currently in the process of a periodic review by the IMF under the so-called FSAT process and, you know, we obviously look forward to as we always do and take very seriously any findings the IMF come up with because that's the most robust independent assessment that we have. We are ready to have any discussions that the EU would like to have but at the moment, I have to say, there is nothing happening on that front that I'm aware

of. Now, I think Jon will probably want to come onto some of the issues because we well know, and clearing is the obvious example, that there are some deadlines baked in there.

Jon Cunliffe: Thanks, Andrew. So, first of all just to reiterate the point we had a list of things that had to be done before and had to be managed before the UK left the EU and had to be managed before the UK's trade and cooperation agreement with the UK was finalised and that's what the checklist was about and now it's much more a question of the FPC monitoring risks that may come from the relationship that evolves and specific risks like clearing that I'll come onto and maybe also just to emphasise the point that we're committed to outcomes-based equivalence and those are the arrangements we have with many countries but bluntly both sides need to want that for that relationship to exist. On the clearing side, there is a temporary permission for EU firms to use UK clearing houses which expires in about a year's time. It's clearly a decision for the EU whether it wants its firms to be allowed to use UK clearing houses or not and that's their decision for them to take. I think the important thing for the bank and for the FPC is that whatever their decision, it's done in an ordered way and that we manage the consequence of it without any risk to financial stability.

So, as I say, we're very prepared for an open relationship based on outcomes-based equivalence but the EU will have to take its own decision for its own reasons on what it wants to do about clearing. What we can't do though is have that decision lead to disorder and stress in clearing markets, bearing in mind of course that UK clearing houses are used by firms in jurisdictions all over the world and we have a responsibility for the stability of clearing in the UK internationally. I'll stop there, thanks.

Lucy White, Daily Mail: Morning all. Just a quick one on the warning that you've given about cloud service providers. Can you give a bit more information on, you know, what some of the services are that these providers give that you deem to be the most integral and what, kind of, further monitoring you'd like to see?

Andrew Bailey: Yes, I think Sam or Jon will want to come in on this. Let me just start, I mean the background to this is that cloud service providers are an increasingly integral part of the infrastructure of the financial system. By the way, of course, they're also integral in quite a few other parts of life as well, but in our world they're increasingly integral. And there's many good reasons for that, I mean it is a model that works in that sense but as they become more integral, obviously the risks to the system increase, systemic risks increase, and it becomes a much more of a matter of focus. One point I would highlight before I handover is that the model has been developed in quite an opaque and closed fashion. Now, I understand part of the reason for that because obviously, you know, we don't want people publishing how this thing works in great detail so that attackers get the guide book as it were. So, we have to balance that but as regulators and as people concerned with financial stability, as they become more integral to the system, we have to get more assurance that they are meeting the levels of resilience that we need.

Sam Woods: Maybe I could add a little bit. Thanks, Andrew. Morning, Lucy. Directly to your question, this is no longer a question of peripheral banking systems being outsourced to the cloud, we are now seeing very important systems and data being outsourced in that way. Now, that can bring benefits in both efficiency, which is often the driver. Also, sometimes of resilience to cyber-attack but there are obvious risks to that, as with any outsourcing arrangement and we've got to be confident that our statutory objectives are appropriately reflected in the way that that's done. Now, we have got some tools already. So, we've got this operational resilience policy that Andrew referred to in his opening remarks which basically says 'Here's the standard that you as a bank or an insurance company have to meet, regardless of how you're plumbing works, whether it's outsourced or not.' We have outsourcing requirements as well. We have Section 166 reports that we use but it seems that across all of that, given that this is becoming more important, we probably will need to do more and I'll finish on this point. This is also an international debate. So, you can see the EU has already brought in something called 'DORA' but there's no established model yet internationally and we are very strongly engaged in leading some work in the FSB and in other places to agree how this is going to work. Thanks.

Russell Lynch, Telegraph: Your comments on global asset prices and underwriting standards slipping, how great a risk is there? Are we seeing a global bubble inflating at the moment?

Andrew Bailey: Well, it's certainly a risk that we're watching very carefully. I mean I would say that the story on asset prices is, you know, it varies from one part of the landscape to the next. So, it's not true that all asset prices are highly elevated and by the way, it's by no means true that all asset prices are highly elevated relative to what one might call the, sort of, underlying determinants of asset prices. That's not true either. But we have seen, obviously, a number of what you might call 'isolated incidents' in recent months, which, you know, obviously we are concerned to ensure we understand the nature of them. In and of themselves they haven't been systemic. So, it's a landscape we watch very carefully. I'm sure Jon will come in in a moment. I did in my remarks, and we do highlight, for instance, underwriting standards in leverage loans which have moved undoubtedly. And, of course, in many ways, the final point I'll make is that it's been an interesting story in the last year or so because it wouldn't have been out of the question based on previous, sort of, experience that the shock that we've had in the last year caused by COVID would've led to an excessive tightening of standards which would cause the other problem which is lack of credit supply and fragility in the economy. So, we've avoided that but we have to watch out for the other risk. Jon, do you want to?

Jon Cunliffe: Yes, thanks Andrew. So, as Andrew says, it's a mixed picture and it's different between different asset classes and between different jurisdictions there's some variation as well. But when you look at things, like, high yield debt you see the compression spreads and it has taken the stair down to levels close to pre-financial crisis and leverage loans are a number of areas. And also have seen, to some extent, the terms becoming less prudent. So, you see that in leverage lending and you see that, to some extent, in the popularity of some of

the SPAC mechanisms. So, there are things to watch there and this is an unusual conjuncture because on the one hand we've just been talking about risk to the economy, risk to households, risk to corporates as we come out of the pandemic and on the other hand we see possibly evidence of risk-taking, elevated risk-taking in other areas. So, it's a bit of a mixed picture. Some of what's happening in financial markets is to do with the improvement in economic news, vaccination and you'd expect that but I think we're going through a period in which there could be a correction simply because, you know, the exit from the pandemic might not be what people are expecting and then some of the dynamics we saw last March which led to a repricing of assets then driving a much stronger dash for cash, some of those dynamics and those vulnerabilities are still there, international communities are working on correcting them, but they're still there and I think that's the point we're trying to make in the FSR.

Silla Brush, Bloomberg: Yes, thanks. On dividends and payouts again, a member of the European Central Bank yesterday said that the ECB will call on lenders to be cautious when they consider payouts and indicated that there would be, sort of, tight scrutiny when any curbs are lifted. Why is the Bank of England, sort of, more eager to throw off the guardrails at this moment? What explains the difference and do you worry about any, sort of, surge in payouts by UK banks? Thanks.

Andrew Bailey: Well, I'm sure Sam will want to come in. I mean I would say this, obviously we're not privy to the thinking in the ECB so I can't possibly comment on that, but what I will say is that we have a framework in place, we had a framework in place and we're going back to that. So, this is not a free-for-all at this point by any means. Sam, do you want to?

Sam Woods: Yes, I would just add obviously we're liaising very closely with the team in the SSM, the ECB, on statements. I mean you can look at the last line of our statement today which says exactly what you said, so, I think we're saying pretty much the same and I think we would expect banks to be appropriately prudent in what level of dividends they pay out given the role that the banks will play in supporting the economy going forward and I think that will be the case. I mean, if you look at what banks accrued-, so, we've been allowing banks to accrue during the first half of the year but not pay out and if you look at what they accrued in the first quarter there's ten basis points across the system. You know, from the starting point of 16.2. So, I don't think that we need to be concerned about this but obviously it's something we'll keep an eye on. But at the same time, I don't want to create any lack of clarity, I don't want to take off the guardrails but the guardrails are somehow still there. We're taking them off, it's back with bank boards and we'll expect them to take sensible decisions.

Andrew Bailey: I think, you know, just to be clear we've been content with how dividend policy has operated in the period up to COVID and you have to put that into the context. The capital framework you have to put into context, the stress tests. You know, there are plenty of tools there, in a sense, to enable banks to take these decisions and those tools will continue to apply.

Huw Jones, Thomson Reuters: Good morning. It's really crypto I'm interested in. I think the bank still thinks it's not a systemic risk to take action but you say there is a growing interest in big investors, institutional investors, and this could cause 'inter-linkages with systemic markets. I mean, why won't you take action now to really safeguard that these inter-linkages don't threaten financial stability? Are you asking crypto-exchanges, institutional investors, banks to introduce additional safeguards when they deal with crypto?

Andrew Bailey: Well, I've said a lot over the years on crypto and I haven't changed my view on crypto which is-, you know, I often view it quite severe but I hold that any investors have to be very clear that you could lose all your money in this, it has no intrinsic value. I think, you know, our view at the moment is that from a, sort of, institutional point of view, the evidence does not point to it being a large part of the picture. But, we clearly have to watch it, you know, very carefully, as we do, because it is a fast-changing landscape. Jon, did you want to-,

Jon Cunliffe: Yes, I'd just say that I think the basel committee has put out some proposals about how crypto should be valued on banks' balance sheets. And of course different crypto assets have different characteristics. But I think that's quite a prudent approach that's been suggested in terms of the capital banks have to hold. We're watching quite carefully where something which is, at the moment, primarily retail and speculative, and it's highly speculative. I think there is action that needs to be taken to ensure that retail investors understand the risks they're taking, but from the financial stability point of view, the point at which you act is the point where you think that actually, you have a risk that is beginning to crystalise, and at the moment we're not at that point. But we could see the way this might happen, and I think there's thinking going on in lots areas about what one would do to prevent that. But at the moment, as Andrew says, it's mainly in the retail space.

Holly Williams, Press Association: Yes, good morning all. Just on the point about companies default rates looking like they're going to rise in certain sectors and concerns over the debt levels. I'm just wondering how confident you are the banks will be supportive to small firms as these emergency loans become due and as the support schemes are coming to an end?

Andrew Bailey: Well, let me start. I think two things. One, our assessment that we've published today reinforces the view that banks' own financial positions are robust and strong enough that they can provide that support. And by the way, it's in the interest of banks to provide that support because, you know, they will get better results and they will find their own financial performance is stronger if, of course, we act decisively to prevent an exaggeration of the cycle and a disruption of the recovery by financial concerns, so that's important. The second thing I'd emphasise as a point that we've made repeatedly but will make again is that underlying that assessment of banks' positions is the view that therefore, if they need to, banks can use the buffers of capital that they have built up and that we expect them to have to provide just the sort of support you're talking about. That is important, and it's important that banks have the confidence and understand that that's what they can do. This

is what the system enables. It's part of the countercyclical nature of of the system that we've created post-financial crisis, and they should use it if they need to. Does someone, Jon, want to come in?

Sam Woods: Just very briefly, particularly on the schemes, Holly. I think the banks did a good job of getting, you know, £75 billion or so of government guaranteed lending out to firms of all different sizes in the last period. We're coming into a different phase now where we've got the recovery loan scheme and the take-up of that has been quite low so far. I don't think that's at all surprising given what firms have really drawn down and the less appealing terms of those loans. The Pay As You Go option on the bounce back loans is also getting quite considerable take-up. The key will be, and we don't really have much from this yet, as repayments become due, how do the loans perform? I just would say that the very early data on that is probably a little bit more positive than some of the very high default rates which were being talked about last year, but it's early days still. I think Jon wanted to come in too?

Jon Cunliffe: No, it's fine. I think you covered the Pay As You Go point.

Oscar Williams-Grut, Yahoo Finance: Morning guys, sorry, just unmuting myself there. I'm just wondering, obviously there's been a lot of discussion recently about these record levels of private equity activity in the UK so far this year. Obviously traditionally that comes with an increased level of indebtedness for the corporations that are targeted. There have been some fears in the press about what it could mean for jobs, for big employers, if the risks there go wrong. Was there any discussion within the FPC about the increase in private equity activity and if so, what was the, sort of, committee's view on this?

Andrew Bailey: Well, let me start. I think it's fair to say we don't take a particular view of private equity in and of itself, so not per se. What I would say though is, and I hope and think that Covid has illustrated this forcefully, is really about the question of corporate leverage. So, what Covid has illustrated, I think, is that companies that increase their leverage beyond levels that are safe and sustainable are of course in a much less resilient position when a shock comes along, and we've had a very big one. So, I think the very clear message should be to companies that leverage matters. It matters from the point of view of the resilience of your own financial position and therefore you need to have regard to it. That's not a point, you know, as I say, per se about private equity. It's a point about leverage. If you are a highly leveraged company, you are going to be more exposed to the sorts of shocks that I'm afraid can happen.

Matei Rosca, Politico: Thank you. I wanted to go back to the subject of the cloud. I seem to remember that a couple of years ago the Bank of England approached this subject and concluded there wasn't a need for additional measures, so I wonder, is this conclusion today the result of additional digitisation from the pandemic, and branch closures, and stuff like that? Thank you.

Andrew Bailey: I think it's a broader point than that, but Sam, do you want to come in?

Sam Woods: Yes, Matei, you're right that our position has moved on a bit, but the reason for that is a very simple one, which is just that we've crossed a further threshold in terms of what sort of systems, and what volume of systems and data, are being outsourced to the cloud. As you would expect, we track that quite closely. It's carried on in the same direction. It has, by the way, accelerated a bit during the last year and a half, but I'm not convinced that's because of Covid or because of remote working. I think probably that would have happened anyway. Thanks.

Jon Cunliffe: I might just say this is not just a UK phenomenon. This is happening in advanced economies, actually emerging markets as well, the banking systems-, because there are advantages in using the cloud both in terms of cost and possibly in terms of resilience. So, as Sam said earlier, I mean, in the end I think the answer to this issue of how we deal with a, kind of, new, global service, a cross-border service, is going to be around international standards and getting international agreement, about how to manage these risks in the same way as we manage other risks from the financial sector, from cross-border services. But this is, I think, not a UK thing. It's happening more generally.

Andrew Bailey: I would also just say, Matteo, just reinforce a point I made earlier. I think it's important-, we don't want to give the message here that we think the cloud is somehow, sort of, structurally unsound. It isn't. I mean, it's important to remember-, and I can speak with experience from this in terms of organisations that I've been responsible for in recent years. In the old-fashioned world of having data centres, things can happen. I can tell you from experience. In many ways, of course, the cloud is a robust infrastructure in that sense, because, you know, it's being managed to high standards of resilience. The point we're making, and Sam and Jon have just reinforced, is that as it becomes more concentrated, and the usage of it becomes more concentrated, obviously its systemic importance increases.

Ouida Taaffe, Financial World: Hi, good morning. I was struck by what Mr Connolly said about increased indebtedness. Could you talk a little bit about regulating Buy Now Pay Later lenders. Is that something you discussed and something you can comment on?

Andrew Bailey: I think that's really a matter for the FCA. You know, obviously there was the report undertaken by Chris Woolard on that area, which is published. It's not something that the FPC regards as a systemic issue. So, any questions on that really are very much for the FCA.

Kalyeena Makortoff, The Guardian: Hi, good morning. Again, on the cloud, you said, 'Concerns about concentration.' Is that about concentration amongst providers, because as you'll know a lot of organisations, not just banks obviously, rely on, say, Amazon web services. Are there concerns about making sure that the banking system is diversifying its providers?

Andrew Bailey: Sam, do you want to come in on that?

Sam Woods: Part of the concern is about the concentration of supply, but there's also a separate, though related, concern, just about the amount of the stuff that is moving into cloud service providers whether or not they're concentrated. They're two distinct points. In some ways, you know, the concentration is a worrying thing. In other ways, it may make some of this more attractable because actually, you only need to have a direct engagement with a relatively small number of suppliers in order to get what you need.

Russell Lynch, Telegraph: Back on the cloud again. On the concentration point, the volumes, could you give me some more colour, and figures or data if you have any, on the acceleration of services which have been placed onto the cloud which is, sort of, beginning to raise flags at the bank?

Andrew Bailey: Sam, do you have any ready facts we can offer him?

Sam Woods: Yes. I don't want to give you figures, Russell, but to give you some colour, this is no longer, as it was a few years ago, something happening, if you like, around the periphery of banks' systems. So, systems that might be very important, but wouldn't obviously go directly to financial stability, you might think of as, sort of, a less important HR system versus a call ledger. Whereas what we now have moving is things that are much more integral to the running of banks and those core systems which could go to safety and soundness. As Andrew was saying, it is not our view that that is a bad thing. It may indeed be a good thing from various perspectives. But we just need to make sure that as it's done, our statute of debt is being reflected, and while we have some tools, we've got to the point of thinking that we may need some more.

Jon Cunliffe: Just to add that it's not just about banks. We're also seeing financial market infrastructure firms also turning to the cloud for the same reasons of their efficiency and resilience, and other market participants, banks and others, connecting to central infrastructure or wanting to connect to central infrastructure through the cloud. So, it's just becoming important now in systemic interconnections as well as in firms' core activities.

Andrew Bailey: I just wanted to add that one of the things of course, and we know this from the micro economics of all of this, but it's relevant to the point about concentration, is that as of course the market becomes more concentrated on one supplier or a very small number of suppliers, those suppliers can exercise market power in terms, not only of the price, but also of the terms. That is where we do have a concern and do have to look carefully because, you know, that concentrated power on terms can manifest itself in the form of, you know, secrecy, opacity, not providing customers with the sort of information they need to be able to monitor the risk in the surface. And we have seen some of that going on, I would say. We've seen some of that developing. I think what we're going to need to see in place in terms of the standards of resilience and the testing around some of the standards of that resilience frankly will have to roll some of that back, that secrecy that goes with it. It's not consistent with our objectives.

Ouida Taaffe, Financial World: Hi, could I just ask you very quickly about your access to bank data. Does the cloud help you get a better overview of what is going on within banks, and does that mean that you could extend what you do in the regulatory space towards the cloud providers to get that increased transparency? Or is that a step too far?

Andrew Bailey: I mean, I think there is a link there. It's interesting you point to that because I think that in my experience, when firms transfer their operations and systems to the cloud, it isn't just a matter of, sort of, saying, 'Here's a load of kit. Please take it over.' Quite often, you know, firms are rebuilding their systems as part of that transformation and that, therefore, can yield benefits I think both for the firm and the regulators, in terms of ease of access to data and ease of manipulation of data. Because one of the other big things we're all going through, I mean, we're in this world as well, is we're all working to improve and radically change the way in which we handle data and the tools that we use. And so those things can go together, yes, and that of course is a benefit.

Katherine Griffiths, The Times: Hi. Andrew, just on this secrecy point. Is the idea that, whichever firm we might be talking about, Amazon web services or whoever, that they are being reasonably secretive and that's their, kind of, modus operandi? Or is it the kind of relationship between them and the bank and, as I think you said earlier, just the desire not to, kind of, advertise how these things work because that's risky? And then, are you just straightforwardly saying that what might happen is that those firms, rather than going through the operational risk work you've already done where you expect the regulated firms to, kind of, manage that risk, that they might come within the regulatory world?

Andrew Bailey: Well, we haven't got to that point. Let me say two things on this. Take your first point. I think we have to strike a careful balance here, going back to what I was saying earlier, between enough openness that both the users and the regulators can understand the risks and resilience of the system and that it meets our standards. Obviously you don't want the sort of openness which opens you up to the risk, particularly, you know, let's put it honestly, particularly cyber risk. So, there is obviously a careful balance. I do understand the point that cloud service providers make that, you know, they do not want to obviously have openness which opens it up to that sort of risk, and that's a very valid point. So, we've got to strike a balance here. The second thing I'd say is, I mean, we have had obviously quite a bit of experience now, going back to cyber for a moment, in terms of requiring particularly major banks to undertake resilience testing and to undertake external resilience testing through the programme that we've had in place, so the CIPAS programme. Now, you know, it's not a direct read across to the world of cloud, but I think some of those tools that we've developed in the work that we've done on operational risk are the sorts of tools that, you know-, I think our feeling will, sort of, crystalise around how we can take that sort of approach and apply it into this world.