Financial Stability Report Press Conference

Tuesday 13 December 2022

Phil Aldrick, Bloomberg: You talked about stress testing and the non-bank financial institutions, does this mean that you're going to be expanding your regulatory remit to include the shadow banks? Because I don't think the bank itself has a remit for that. And also you talk about international progress should be made in 2023 on this, kind of, crack down on the shadow banking sector, there's been talk about closer regulation of the sector since 2010 and nothing's happened-, well nothing much has happened, why is 2023 going to be different?

Andrew Bailey: Yes thanks Phil. I'm sure Jon or someone will want to come in. On the regulatory remit, I'd make a distinction here between what I call, sort of, micro-regulation and macro-regulation. On macro-regulation the FPC's remit goes very broad. In fact it goes as broad as it needs to go. What, of course, then has to follow through though is how conclusions of that are actually put into effort and, of course, that requires micro-regulators, sector regulators if you like, to act on it because the FPC is not a micro-regulator in that sense. Now there is a provision within the legislation for the FPC to make recommendations on that to the government because it's obviously, rightly, a decision for parliament ultimately as to where the regulatory perimeter is set. And, of course, as you'll know, we've got legislation currently in parliament and going through parliament which will reset the perimeter in some respects, crypto being probably the best example of that. So where I-, in answering your question I think the FPC obviously has to make choices over where it focuses on what is a very big landscape and I think, hopefully, you'll see that what I've described is a, sort of, summary of where we think those choices need to be made and how they need to be made. In terms of following through, I think it, I'm not saying it necessarily requires a change to remit, I think it does require a change to focus.

I mean, you'll see in the conclusions of the policy meeting that we have made a recommendation this time, we don't always make formal recommendations but this time we have and it goes to the area of define benefit pension schemes and the pensions regulator. It's not saying we should change the perimeter, but it is saying that I think that we need more focus on what I call the financial aspects of regulation in that area. On the international progress-, the post-financial crisis reforms, as I've, sort of, said at the end, were very much rightly focused on the banking sector. What we've seen, and I'm not sure we should be surprised at this, is a shift in the relative weight of bank and non-bank financial activity in the last, sort of, what, now 15 years really since the-, 12, 14, 15 years since the financial crisis. And you're right, within the financial stability board, you know, there has been a focus on this for some years, not quite probably as far back as you mentioned, but some years.

Your precise question, you know, why is it different now? Well I think it's different now because, well as I said, we've not got, you know, a whole series of non-bank incidents if you like across different jurisdictions. And I think it is absolutely critical, first of all, to recognise that, you know, this is a sector that is highly internationally diversified. I mean, I'll give you

the obvious example with the LDI funds, that the pooled LDI funds, which were the main source I think of the, sort of, challenge we had, are in almost all cases actually based outside this country in other jurisdictions. So that emphasises why it's so important. Money market funds is another example of that in our case. But I think what makes it the more pressing and, you know, certainly there's a view we strongly hold that the progress is made by the end of next year is of course what we've seen. You know, it is now much more pressing. Do you want to?

Jon Cunliffe: Yes, I might say a couple of points. One, the FPC doesn't have powers of direction on non-bank finance but it has, as the governor said, wide ranging powers of recommendation, including on the regulatory perimeter but also comply or explain recommendations to both the PRA and the FCA. So, the FPC is in a position, I think, to make pretty strong recommendations if it wants to. The second is this is an exploratory stress test, not the annual stress test that we do at banks. We are in the middle of an annual stress test of banks but this will be the first time that we've tried to do an exploratory test essentially on liquidity stresses in the system of banks, insurance, pension funds, investment funds, clearing houses, just seeing how the whole system operates together. That's a much more complicated task and I think we're developing, kind of, new ways of approaching that. You can see some of those new approaches in the document we just published on the stress test we carried out on CCPs over the last year. It's exploratory so it won't be resulting in capital recommendations in the way that the bank stress test might. And just on the international side, the FSB put out its progress report a couple of months ago but by the end of next year, the FSB will have reviewed the action jurisdictions have taken, or proposed to take, on money market funds and already there's been action proposed by the SCC on that. It'll be coming forward, the recommendations on liquidity management tools for open-ended funds. It'll be coming forward with conclusions on how to ensure margin call from CCPs and bilaterally is not unnecessarily pro-cyclical.

It'll be looking at some of the roles that leveraged investors played in core funding markets, and doing a pilot on collecting data in this area, which is one of the biggest issues. So, by the end of next year we're due to come out with policy recommendations. Whether they will be sufficient or not will depend on the will of the international community to tackle this. I think you're right that from 2010 to 2017, I think, when the FSB made its first recommendations, the international community was slow despite the FPC pushing hard on this. I think the dash for cash that the governor mentioned, the things we've seen in Archegos, the things we've seen in commodity markets, have made people much more aware of how liquidity resilience in non-bank finance can cause systemic issues. I think there is more of a will to tackle these problems but we will know by the end of next year what we've come up with.

Francine Lacqua, Bloomberg TV: Do you have a-, it might be a bit too early, but do you already have an indication of where the main vulnerabilities for these non-financial stresses could be that we should look at now, not to wait next year. I think we have, the SCC just put out a statement on FTX and its founder, like, what's your take on it?

Andrew Bailey: Well, I think in terms of where, you know, where are the particular problems in the non-bank sector, I'd say two things. I mean, Jon has described the exploratory scenario. I think it's very important that we look across the, sort of, the landscape on that. But the challenge we face is this, in doing so, we've got to get a combination of both breadth and depth. The reason for that is illustrated by the LDI funds actually. I would say that there are three underlying causes of the problem in the LDI funds and why it was particularly a problem in the pooled funds. So the three are this, one obviously was the unprecedented movement in long gilt yields. The second one was the degree of leverage that had been taken on, and by the way, the evidence that we have suggests that the pool funds had higher leverage than the so-called segregated funds, the single-pension fund funds. And the third one is-, and this is particularly why I make this point about breadth and depth, there was effectively a structural problem in there which was embedded in there, and particularly embedded in the pooled fund, if you like it was a collective action problem. But given the first two things, the solution to the first two things is the so-called rebalancing of assets as liquidity moves from the parent fund to the pooled fund. But there was a structural governance problem in there about how you did it in the time available given the scale of the shock and therefore the need.

And the reason I say that is because we've got to sort of, as I say, get this careful combination of breadth and depth so that we uncover that, sort of, issue across what is a very broad landscape. So it's not a matter of us having a hidden list of things that we think is the problem, it's how we focus on what I think are the underlying, sort of, issues here, which is the potential for sudden demands for liquidity, the role of, what we tend to call hidden leverage, in the sense that it's not as obvious as it is in banks where you can reduce it to a ratio and how we get this depth and breadth combination. And therefore we'll have to structure the test and, indeed, the international work has to focus on this, because there's a lot of work the FSB does on vulnerability assessment which we're part of, as to how we get this right balance so that we can, you know, we can uncover those areas that need to be uncovered. Sorry you asked about FTX as well didn't you I think?

Francine Lacqua, Bloomberg: Yes, because I think moments ago the SCC (inaudible).

Andrew Bailey: Did they?

Francine Lacqua, Bloomberg: (inaudible).

Andrew Bailey: Well, I mean, obviously, we saw last night that there's been also judicial action. So I mean, I think obviously, I think FTX is very much an issue for the US given the domicile and the nature of it, but obviously the implications of it in this broader sense that we've been talking about flow out from there. I mean, as you know, I've taken a-, for like four years I've taken a pretty strong line on crypto that I don't think-, and by the way, I distinguish crypto from stable coins here, by the way just to be clear. So on crypto that it doesn't have intrinsic value and that if people wish to invest in it, well, they must be prepared to lose their money. There may still be a case to investing, people buy things because of their extrinsic value but, you know, we have to be very clear what it is.

David Robinson, Market News: In light of the actions the bank took over LDIs, are you now looking to either rethink, codify or formalise the banks operations as market maker of last resort? Because it seems to be done on a very AD HOC basis, no-one quite knows what your decisions are, what your criteria are. And also, as you're making the recommendation from the FPC now, why wasn't it made before? That is on the strengthening of LDIs, the resilience of LDIs to the pension fund regulator.

Andrew Bailey: I might say it in two parts, I might have Jon come in on the second part. On your point about market maker of last resort operators, it's a very good point actually. So, we have been, you know, for a while now, sometime now, focused on how we would conduct operations in respect of liquidity needs in the non-bank sector. But more particularly, I think it's important to take it a step further and say, where there is a need for the central bank to play a role which goes beyond the channelling of liquidity to the non-bank sector through the banking sector. So the traditionally model if you like is, we put liquidity into the banking sector where it's needed and it finds it's way out to the places that it needs to find it's way out to. And I think we have to conclude, and i go back to the point i made earlier about the shift in the relative, sort of, size of the bank and the non-bank sector, that we can't always rely on that mechanism now to work. Not a criticism of banks, i think we just have to accept, you know, this change in relative roles and relative scale introduces that risk and therefore that need. Now, we've been working there for a little while on how we could, you know, how we could do that. How we could do that within, what i might call, sort of, the normal conventions of how central banks operate in markets because, you know, we do not want to start creating the moral hazard that we will intervene in the world, wherever the world needs intervening come what may, sort of thing. And the second thing is then, is more, sort of, operationally how would we conduct operations with a very large range of counterparts who are not our regular counterparts and within we have no direct relationship either through normal market operations, or indeed as a micro-regulator I should say as well.

We've been working on how we could conduct repo operations, because repo intends to be our standard way of putting liquidity in against security. That work is continuing and we've also done work internationally on that and the BIS published a report which we had quite a large role in and that will continue. But, let me just say, LDI actually illustrates the challenges in this area and I'll just give you a sense as to what went on in this building if you don't mind, because it might help to-, well I don't know, it might bring it to life or not, I'll leave you to job. So we spent, you know, we burnt the midnight oily frankly trying to work out could we actually do operations directly targeted into either the LDI funds or the main, or the parent pension funds because the point I was making earlier about rebalancing of assets of a liquidity was moving liquidity from the parent funds into the LDI funds.

Ultimately, I think if you say, 'Well why didn't you do that?' A number of things. One was the LDI funds actually didn't have the assets for us to repo against. The parents funds did but the governance, particularly in the pooled funds, I think there was a collective action governance challenge in that area, I think would have made it very complicated for us to be sure that that would have worked within the time available. The third one is actually rather more practical

but we have to solve this, I mean, if you ask the question how many on pension funds do you think, sort of, underlie the pooled LDI funds, I think the numbers that we've calculated it's certainly at least, sort of, somewhere around 1800. Now for us to operate with 1800 counterparts is a pretty tall order. So, you know, we're still very much focused on that but I think that gives-, you know, the non-bank world is a challenge in that sense and frankly going back to the midnight oil being burned and bringing it to life, you know, there came a point when we realised that that was to going to work as a strategy in that context and therefore we switched to the more broad market intervention of purchasing gilts. I mean, obviously, targeted on the areas that we knew the LDI funds were going to have to sell in. Jon go ahead.

Jon Cunliffe: I'll say a few words on the recommendation. So the FPC ran a simulation back in 2018 about what would happen to pension funds, insurance companies, hedge funds with a hundred basis point increase equivalent to 100 basis point increase in long gilts. And that showed that liquidity management in pension funds, insurance etc. needed to take more account of that. And we worked with a pension regulator to get more information on what was happening and to advise funds more strongly that they needed to manage their liquidity. So the question is, what changed between that and post LDI? I'd say two things in particular, one we saw actually in Covid and then, I mentioned this before, and we saw in the stress incident in September, October moves that were beyond historical experience. So long gilts moved I think by 130 basis points between the mini-budget or fiscal event and the point of which we came in. I think the largest move, over four days, the largest move we'd seen before was around 30 basis points. So we saw moves outside historical experience, we saw that as well in the Covid Dash for Cash in other areas. So one reason is we now need to think that stress test calibrated on the past may not show enough and you need more resilience. The other is that the point that Andrew just made, which is I think, one in three pension funds has less than 100 members. So if you look at these LDI strategies, 75 to 80% of them are done by large funds that weren't actually causing the problem in this case.

But it is the 20%, or actually less, by value, which were these pooled funds of very small, investment funds offered to very small pension funds that caused the problem. And the problem was two fold, one was that the funds in question didn't have the mechanisms for getting the liquidity, the pension funds, didn't have the mechanisms for getting the liquidity and the capital into the investment funds and we couldn't lend to the pension funds because, as Andrews just said, there's just too many of them. And the other I think is they haven't been managing as gilt yields have been moving over the past year they hadn't really been managing their buffers quickly enough. These are slow moving animals, if I can put it that way, and the governance and organisation of those funds just doesn't make them react very quickly to market movements. And those are lessons learned and we've said, 'Clearly there needs to be lessons learned.' And that's why I think we need to have standards, what we've put in place now is a temporary recommendation that says they should hold on to the resilience that they have that would enable them to meet a rise in long gilt yields to about 7%, that's what they have at the moment and that's what the recommendation says.

But in the medium term we need to come up with steady state rules, not just on guidance, not just on liquidity buffers, but also on organisation and governance so that when you hit these ahistorical stressors, because we're living clearly in a world in which we've seen a number of things outside historical experience, in markets you can move the liquidity quickly. I'll make one final point, this is not about the solvency of pension funds. When interest rates go up, pension funds actual insolvency improves because the value of their liabilities goes down. This is about being able to deal with the liquidity requirements of leverage strategies and if you can't deal with, if you like, the liquidity requirements of a leverage strategy when it's under stress then that leverage strategy is not appropriate to you and that's what will have to come out. Thank you.

Fiona Maxwell, MLex: So my question is on banks rather than non-banks. So the consistent conclusion from the bank from the FPC is that banks are resilient record levels of capital and liquidity. A couple of weeks ago we had the proposals from the PRA on Basel 3.1, you said, 'Unlikely to significantly increase capita requirements but probably there will be a little bit of rebalancing.' So is that necessary given your consistent positive view of bank capital?

Sam Woods: Yes, it's nice to have a question on banks. Thanks Fiona. There's a good chart in the report which shows what's happened on bank capital, which is a broad build-up until a couple of years before Covid, where we got up to, sort of, a cruising altitude, which in our system is around 14% of CT1. A temporary step-up during Covid because of safety first actions by us and also by the banks and then it coming down again to that cruising altitude. As you've rightly picked up we do expect our proposal to implement, and the clues in the name here, but we call it Basel 3.1 one for a reason, a sense that we don't think that's going to lead to a very big further increase in capital. But it is completely necessary to do it and the reason, Fiona, is this, that we've discovered that when we take the same group of assets and put them through different banks' risk rating engines, and this by the way is done internationally in Basel with all of us contributing, we get completely indefensible differences in terms of the amount of capital requirement that spits out of those different banks calculations.

And, you know, in the most extreme cases you have a factor of thirteen times different between the most conservative bank and the least conservative bank. And these reforms are designed to tackle that problem, there is a few other things in there as well, but that's really the heart of it. And if we don't do that, I think what'll happen is that the main plank of the bank capital regime globally, which is the risk weighted regime and is what all these numbers like 14% are expressed it, will simply fall away because people will rightly lose confidence in it. So that's why we've got to do it. And I think it's particularly important that here in the UK, having just left the EU, as the host of a very large global financial centre, we are seen to be a pragmatic but a robust implementer of the international standard because that's part of our licence to operate a very large financial centre.

Laura Noonan, Financial Times: Governor in your opening statement you referred to the culture around the fact that we're not entering a deregulatory era and the, kind of, trying to get the balance right between fitting the rules with the UK, when you think about what the

government announced last week, do you think that they have got the balance right or are there any parts of that that concern you? Thank you.

Andrew Bailey: Well, I think it's, as I said, it's important to recognise that Brexit is an important moment in time and it's right that we review the regulation that we've inherited from the past, because that regulation's designed for a union of what was 28, now 27, countries. And of course, UK's a single currency case. You know, just take solvency two as the example, much of the underlying issue with solvency two was that it was a very complex piece of regulation designed to cover what was, sort of, assumed to be a single European insurance market, when certainly in the area of life insurance the product mixes across the country were very different. I mean, the UK has a very different product mix in terms of life insurance products to other parts of Europe. And so, it naturally followed that it's right to, you know, to review that and change it as appropriate so I, you know, I think last weeks announcement, in a sense, is very much reflective of that. The point I, you know, made this morning is there's a second reason, let me say, for having a review. Because, obviously, it's rightly been pointed out that ring-fencing and the senior managers regime for instance are not EU regulations. In fact, the EU actually did not go down either of those routes. But I would also say, you know, it's important-, always regulation has to be kept up to date, so the idea that we never review anything and that these things are set in stone for all time, of course, that would be a road to problems actually. So it's right that we do that.

What I do say, however, and I'll just reiterate what I said is, I think it's important though to recognise that the regulatory initiatives that have happened post the financial crisis. And, of course, Sam has just been describing if you like, the last part of that in the banking world, were done for an important reason. It was a very, very painful, very difficult experience. And, so accepting the point that it's, you know, there are reasons why we'll review and change things, I would however caution that the notion that we're passed the financial crisis and we therefore don't need the regulations that we had post the financial crisis, I would not go along with that view. Because, I think we have to understand clearly why the banking system is much more robust today than it was then. And, you know, regulation of course isn't the only contributor to that but it is an important part of that story.

Laura Noonan, Financial Times: Just to clarify, are you saying-, who's actually arguing (inaudible 36.34) and we don't need it? Is that the (inaudible)?

Andrew Bailey: Well I think there are people out in the outside world who are suggesting that. And I, you know, I think it's therefore just important to make clear that, you know, the basis on which the regulatory system which we have today, a lot of which was changed particularly in the banking system post financial crisis, was not done just to address a particular problem that then went away. It was done to put down some, what I would regard as, pretty fundamental planks of the regulatory system. So, you know, I'll just give you one. I mean, the senior managers regime moved us from a world where the judgement was one of culpability to a world where the judgement was one of responsibility and I think that has created an altogether helpful dynamic in that sense.

Anna Wise, Press Association: Yes, I just wanted to touch on in the report you're talking about households being more resilient than before the crisis and that many are tied to fixed-rate mortgages so the impact of rate rises hasn't hit them yet, but then you talk about four million being due to face increases next year of around £250. I was just wondering if you could explain a bit more about why you think they're in a position to withstand this increase and why it is that it won't lead to material losses for banks this time around?

Andrew Bailey: Well I think there's several thoughts behind that. So let me start, I think it's absolute, the first thing we should say about this is that there is nothing easy about the situation we're in at the moment, that we are very conscious of the affects it's having on households, very conscious of that. And, you're right that, you know, four million households in this country are exposed to rate rises over the next year and that's obviously a very substantial number. There are two things I would draw out though to underpin the points I made about the current situation, one is that aggregate-, if you take the aggregate mortgage, you know, debt service ratio now, it is lower than it was, for instance, before the start of the financial crisis and at the time of the early 1990s recession when we had quite a severe, obviously, mortgage and housing crisis. We've also, obviously, through the work of the FPC put in place the framework on high loan to income borrowing, that is actually also the tail of the distribution of high loan to income borrowing is now smaller, appropriately smaller. And that will also increase the robustness of households in that sense. That's the first point. The second point is is to just re-emphasise the points I made at the end of my opening comments.

There's two parts to this, first of all banks are now required by regulation to frankly support their customers through these problems more than they did in the past. So in other words they can't resort to repossession with the speed that, you know, has gone on in the past. But there's a second part to that which I think is very important and it's the part I really emphasised at the end of my opening remarks which is this, that of course a more financially robust banking system will be better placed to do that. You know, their resources will be better placed to support their customers. We saw that during Covid with mortgage holidays, the banking system will be better placed to support their customers and therefore, you know, I very much hope and believe that more customers will be supported through this and we won't get the level of repossessions, and of course therefore the level of loan losses that went on in the past.

Jon Cunliffe: Perhaps just to add a couple of numbers to that as well, so household debt to income is about 20 percentage points lower now than it was during the financial crisis, and actually household leverage has gone down in part because of some of the measures the FPC put in place actually on mortgage and mortgage underwriting standards. We're looking, we're forecasting numbers in the FSR that kind of, average DSR will go up from about 5% of income to 7.5% and that's looking at 9%, 10% in the financial crisis and in the big housing stress that we had at the beginning of the 1990s. Loan to value ratios are much stronger now which means that fewer people will be in negative equity. The governors said that banks are now required to support customers, and crucially, have the strength to be able to do that, and that goes back to some of the earlier points, I think in answer to Laura's question on resilience in the banking sector. So one wouldn't expect anything like the degree of fore closures and force sales that

you saw in the 1990s. What you might expect, and I think this is something the MPC has commented on in the November MPR is that of course households will be squeezed and that will affect their consumption. So this will not be necessarily an easy time, but whether that leads to the sort of stresses we've seen earlier in the UK housing market, really depends on the resilience of households, and the resilience of banks, and that suggests, I mean, the numbers suggest, we are in a much better position than say the early 90s. Which is the last time we had sort of, interest rates going up at a time of inflation and house prices, financial crisis interest rates and inflation went in the other direction.

Kohei Onishi, Nikkei: There'll be the meeting of that G7 finance minsters and central bank governors in Japan next may, so what do you think should be discussed as a central banker in terms of global financial stability?

Andrew Bailey: Of course it is a little while until the G7 meeting in Japan, so we'll see what of course, happens, but I can tell you that throughout this year the G7 of course has been discussing, during the German presidency, the G7 has been actively discussing the state of the world economy. As you'll imagine, expect, I'm sure we've had a particular focus on the impact of the awful developments in Ukraine, and that has obviously had a big impact on G7 discussions, the economic impact of what Russia is doing in Ukraine. I wish I could say that we wouldn't have to do that next year, but I'm afraid, you know, as things stand now, I suspect we will be discussing the situation in Ukraine further. Of course the G7 discussions of finance ministers and governors then in a sense go on from there to therefore discuss the impact of that on the world economy, and what each of us is doing to address that. I look forward to the Japanese presidency and I'm sure they'll be taking it forward. I know my Japanese colleagues are already very actively planning it, and we really welcome the work the Japanese presidency are already doing.

Tom Rees, The Telegraph: On the housing market the report mentions growing pressures on many buy to let landlords from higher interest costs. How big an issue do you think this will be for that part of the market, and will they worsen the slump in house prices by being forced to sell the properties?

Jon Cunliffe: Yes, so, I think one is seeing a slowing down in the buy to let market. Buy to let is 80, 90% of the mortgage stock at the moment. The sector is more resilient again, FPC, following FPC analysis back in 2016, the underwriting standards for buy to let were tightened, the income coverage ratio and LTV. So, the sector is stronger, the LTVs are normally lower than in the residential market, so there's more of a cushion there. Of course a number of things are happening in that market, not just mortgage costs, you're seeing legislation on tenancies, there have been tax changes as well, so it may well be that a number of buy to let landlords who came into the market over the last ten, fifteen years, will seek to come out and perhaps take capital, take out of the profits. That will affect house prices, but of course house prices have gone up nearly 20% over the last two years, so if you think about it, there is a lot of space before you start to see sort of, negative equity and distressed sales. I think a slowing of buy to let and buy to let activity, kind of, could affect the market as a whole. I just go back to the

earlier point I make, I think this is going to be more a question of the market slowing, maybe the market falling from back on some of the highs it's seen over the last two years, but it doesn't look like a 1990s style, kind of, fore sales driving house prices down in a large way. Of course, our stress test, stress test we're doing now, of the banks, test banks to a fall in house prices of over 30%, that's been a regular feature of our stress tests, so on the banking side we think the resilience is there.

Iain Withers, Thomson Reuters: You've said you'll monitor banks to ensure they don't overly tighten credit, how do you think you'll do that and what might intervention look like if you were to do that? And just to follow up on LDI, you said they need bigger buffers, well, is there a chance that gets passed on to pensioners in terms of higher fees? Thank you.

Sam Woods: Yes, so again we included what I think is quite a useful chart in the report which looks at that question Iain, and looks at what's been happening with banks near the interest margin which is one aspect, it's not the only aspect, but it's one aspect, of that question. What you will see there is that those margins have rebounded back to a bit but not very much above the average level they were at in 2011, 2019. That itself followed of course a very significant drop with the financial crisis, and then in between those 2 periods we had a further drop down to a lower level, driven first of all by an intense kind of, competition in the mortgage market, and that rolled straight into Covid. So I think as far as what's banks are doing at the moment is, we're seeing a return rebuilding those margins to something that is more normal based on historical experience, it's also normally the case that banks will make more money when rates are going up because assets tend to be more sensitive than liabilities to that change in the environment. We'll obviously be keeping an eye on that going forward. We're also looking at other changes that banks are making in terms of their lending to the economy, they are tightening a bit but for higher risk lenders and in a way that we think is appropriate from a risk management point of view. What would we do if we changed that view? Well we have a number of tools at our disposal. The communication tool is actually quite effective, but this is also relevant to the countercyclical buffer, in that we're confident that the right thing to do at this point is to build in that neutral rate, in order that the banks can carry on supporting the economy, in the way that they've done to date. And on the LDI buffers, perhaps I'll pass to Jon?

Jon Cunliffe: I think it'll be for the pension regulator to opine about what funds need to do, and the sponsoring, the sponsors of pension funds to do. The key point here is if you run a leveraged LDI strategy, you have to be prepared to put, to deal with the liquidity consequences of that, and it may be that means that for some pension funds, LDI strategies are not quite as attractive, or they'll have to rebalance in some other way.

Andrew Bailey: I mean as a key point, that's what Drummer's said about risk management. I mean, you know, there is a key responsibility here for LDI funds and their managers to carry out appropriate risk management and of course for the trustees and funds to oversee that, because unsustainable returns will not end well in that sense.

Jon Cunliffe: I might perhaps make a point on that which is, what happened in this incident is a number of the LDI funds that were the investments for pension funds and the pension funds themselves, had to sell assets, they sold corporate bonds, they sold gilts which are their hedges, in a stress, and they sold them at low prices in order to raise the liquidity, and that's not good for them either. So looking at the thing in the round, you know, recognising the true cost of running strategies that require liquidity in stress is not a bad thing for pension funds, it's probably a good thing.

William Shaw, Bloomberg: Just a quick question for Sam Woods about Brexit and the ECB desk mapping exercise. So Goldman Sachs is moving it's Euro Swaps trading desk from London to Milan, City's moving it's head of European markets from London to Paris, are you concerned about London losing some of it's financial standing as the ECB keeps pressuring trading jobs to move away from the UK, and how many of those roles do you think might eventually have to move over time do you think, please?

Sam Woods: Thanks Will. That's something obviously we've been spending quite a bit of time on. The short answer to your question is that at the moment, I'm not concerned about that. The reason for that is that it was always clear that with passporting falling away as part of Brexit and various other changes, that our colleagues in the ECB would require more entities in the EU, and that as part of that there would be some staffing implications. So that's always been I think, kind of, priced in, at least certainly from our point of view. Our key interest has been in making sure that any changes that take place are based on proper regulatory concerns and are not a kind of land grab, and secondly that the new structures which are of course a bit more complex than what we had before Brexit, can be overseen and also manage risk properly within the firms, and on both of those scores, I think we're fine. Looking t it slightly more broadly in the context of your question about numbers, I don't want to give you a specific number today, what I would say is that one of the consulting firms publishes quite regularly jobs numbers that have gone across, I think the latest number was about 7000 overall, but that's wider than the desk mapping review of course, and as far as I can see that's a reasonable number. That's at the lower end of some of the numbers that were being talked about prior to Brexit, and in the round, we've had a very good interaction, of course, not the most straightforward, but a good interaction with our colleagues at the ECB on this and I think a reasonable compromise is being established between the various interests people have.

William Shaw, Bloomberg: Although it's a small number that have moved in the past, is it more important and more significant now because the ECB is going after front office jobs like trading, rather than like back office, compliance roles, like it was in the immediate years after the Brexit vote?

Sam Woods: No I don't think so Will, because the ECB has always been clear that part of not having an empty shell or brass plate in their jurisdiction meant having some first line staff in their jurisdiction. We understand that point, because we make the same point ourselves, but it's just a question of degree, and as I say, I'm really not concerned. The numbers that we're talking about on traders remain a very small fraction of the trading population here in London.

Sarah Taaffe-Maguire, Sky News: I'm wondering why haven't market fixed rate mortgages come down, governor I know you said that they're currently, they had been too high, and they haven't fallen down, why is it the market doesn't believe you and they haven't come down to pre mini budget rates?

Andrew Bailey: We've seen some reduction in new fixed rate mortgage rates, since then, so I wouldn't say they've not come down actually, we have seen some reduction. We follow it very closely, I mean, and we will continue to follow it very closely to see how it evolves, so I think there's always a case where the market will probably wish to see the evidence that things are returning to normal. Now, by the way, I do think in terms of interest rate conditions in that sense, the sort of, what I might call the UK risk premium that we saw over that September October period has, certainly if you do the international comparison which is one way of doing it, I think that has eased quite considerably. So there has been some reduction and I will be interested to see what happens next.

Jon Cunliffe: I'm looking at it, I think there is a chart in the FSR that shows this which is the mortgages are normally priced off the 2 year or the equivalent swap rate, but in the years leading up to Covid, the margin over that swap rate had become very compressed, and I think some of that was to do with competition in the mortgage market, and also a lot of banks looking to increase market share, but if you look at it over a longer time scale that spread over the swap rate has been higher. So I think rates haven't, or are coming down slowly for 2 reasons, one because banks reset them slowly, so you wouldn't expect them to come down as quickly as the market rate they're priced off, but two, we might see that that compression in the spread that we saw in the years before Covid, it goes back more, spread goes back more to historical averages, which means that they will be higher going forward relative to the swap rate, than they were in the immediate years before Covid. That's a useful chart I think, have to find it in the FSR.

Phil Aldrick, The Times: The LDI just revealed that when concerns about inflation get into markets it can create financial stability concerns. With that in mind and considering you've talked about pay restraint in the past, and the importance of pay restraint. Do you stand by your previous comments that it remains very important, pay restraint, and is the government stance on public sector pay restraint important in this inflationary context?

Andrew Bailey: I'm tempted to stay that's straying into monetary policy, I think Phil.

Phil Aldrick, The Times: It's got a financial stability element to it, I think, given the blow ups that could be caused.

Andrew Bailey: Well, I think 've answered the question on pay restraints, quite a few times this year, I really don't have anything new to say on it. I'm not really, it's not for me to get into the question of public versus private sector, I mean, I'll just reiterate 2 points that I've made repeatedly. So I'm not saying anything new this morning, I think I'll just preface what I say by that. The first one is that quite simply, I mean, you know, this is an external shock predominately that we're experiencing, and that causes a real income effect, a loss of real

income in the UK. The risk that we face as we've said before is the so called second round effects, which come from both price setting and wage bargaining and that obviously remains very much our focus. The second point that I've made many times and I always preface this by saying, I think it probably does stray beyond, strictly beyond the bank's remit but I'm going to say it because when I think, when I go round the country I think many, many firms point out, say to me that they are adapting their pay settlements to give more to low paid workers and I think that is entirely sensible given the nature of the inflation that we're facing at the moment, because it is very concentrated in what you might call the essentials of life. I think, if I go any further I think I'll be guilty of breaking the rule on monetary policy so I'm not going to do that.