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Three principles for successful financial sector reform – speech by Chris Salmon

In a speech delivered at City Week 2012, Chris Salmon, Executive Director for Banking Services and Chief Cashier, reviews the regulatory response to the financial crisis. Salmon begins by recapping the objectives of the response and the key building blocks through which it will be implemented in the UK. He goes on to discuss the approach the Bank and the UK authorities are taking to ensure successful implementation; and finally, he reflects on some of the opportunities that the structural changes may offer the City in the medium term.

Salmon provides a reminder of the basic aim of the reforms: to fix the flaws which started to become evident during the summer of 2007. While few now argue against the need for reform, it is sometimes suggested either that the transitional cost will be too high or that the reforms will have unintended consequences. While acknowledging the inherent challenges of implementing such significant changes, Salmon goes on to describe three guiding principles for successful implementation, which he believes will help the authorities to deliver a coherent and effective set of reforms. First, it is better to manage the costs of change by having a long transition period than to water-down the reform so that change can be implemented more quickly. Second, we need strong dialogue between public authorities to maximise consistency of approach. Salmon also notes the benefits of a strong and open dialogue between market participants and the public authorities to understand the potential impact of the proposed reforms. Finally, Salmon advocates the need to recognise the limits of foresight and build in mechanisms so that rules can be amended, recalibrated or adjusted to take account of future developments.

Turning to the medium term task faced by market participants, Salmon suggests that they will need to adjust their businesses to take full advantage of the opportunities that the new regulatory framework and other structural changes provide. He suggests three possible themes which could provide those opportunities: the demand for some intra-financial sector services might grow, for example there may be increased demand for collateral management services; there could be an expansion in the range of firms accessing funding directly from capital markets; and finally, structural changes in the global economy could create new opportunities for the City, for example the possibility of developing an off-shore renminbi market in London.

Key Resources

<http://boe-cms-authoring/publications/Documents/speeches/2012/speech545.pdf>

Full Speech by Chris Salmon