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Is the world financial system safer now? - speech by Sir Jon Cunliffe

Speaking at a Chatham House conference on Monday, Sir Jon Cunliffe, Deputy Governor, Financial Stability, surveys the progress that has been made by international standard setters since 2008 in making the financial system safer, sets out the further steps that still need to be taken and underlines the importance of the reform programme being implemented consistently across jurisdictions.

Jon Cunliffe notes that progress on the ambitious regulatory reform programme launched by the G20 at the 2008 and 2009 summits has been impressive, particularly on international capital and liquidity standards for banks. However, although much progress has been made, he warns that there remains important work to be done, particularly on addressing the issue of Too Big To Fail.

Jon says "it is crucial that the European Parliament now gives its final approval to the proposed resolution directive. And that the directive and the new 'bail in' rules form the bedrock of the new Single Resolution Mechanism for the Banking Union in the Euro Area."

Even with new 'bail in' rules, further steps are needed to ensure major international banks can be safely resolved. Jon Cunliffe underlines "I do not think we can say with confidence now that we could resolve a failing global giant. Getting agreement on international standards to end Too Big to Fail is perhaps the most important regulatory priority for the G20 Summit in Brisbane in November this year."

In addition to completing the design of international standards, Jon Cunliffe sets out two further conditions that must be met to ensure the success of the reform programme: coherence and mutual trust.

On the first, Jon says he has some sympathy for concerns about the unintended consequences of regulation, and for firms' desire for certainty about the regulatory endpoint, though the financial sector itself continues to throw up fresh regulatory issues. "We will need to be very alive to 'coherence' as implementation progresses."

Jon says that a much harder condition for the success of regulatory reform is that of "mutual trust". This is necessary because at international level, authorities can only agree standards. It is a matter for national legislators to enshrine these standards in law, while implementation and supervision can only be done by national supervisors answerable to national parliaments.

"Without mutual trust, the danger is either: slipping back into weak regulation and supervision and regulatory arbitrage, risking further crises; or fragmentation of the international financial sector – a rolling back of financial globalisation that will damage global growth."

Jon describes how the work of the FSB and IMF can play key roles in establishing mutual trust, and notes the FSB has already been helping jurisdictions that have implemented standards in different ways come to a shared view on mutual recognition.

"The key is agreeing to focus on the outcomes achieved in different jurisdictions rather than a line by line comparison of respective rulebooks."

“But unless we can maintain and foster mutual trust as we implement the reforms, we will not succeed in, on the one hand, maintaining an integrated global financial sector and, on the other, ensuring it is proof to frequent destabilising crises.”