



BANK OF ENGLAND

News release

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Building real markets for the good of the people

Speaking to a city audience at the Mansion House this evening the Governor of the Bank of England, Mark Carney will say that the age of irresponsibility in finance is over.

The Governor will urge markets to regain and reinforce the social licence required for them to operate, innovate and grow – something which has been called into question in the wake of repeated episodes of misconduct. He will say that real markets must be resilient, fair and effective in order to make the greatest possible contribution to the prosperity of the people of the UK.

He will say that UK markets matter for global commerce, but above all, our markets matter for our prosperity and serve our real economy. They set the exchange rates we use when we travel or buy goods from abroad and they determine the costs of our food and raw materials.

He adds that while markets can be powerful drivers of prosperity, they can go wrong. Left unattended, they are prone to instability, excess and abuse. In the past this was caused by poor 'soft' infrastructure such as codes of conduct that too few read and too many ignored, faulty 'hard' infrastructure like interest rate and foreign exchange benchmarks that were quite literally fixed; and weak banks whose light capital and heavy reliance on short-term funding created a tinder box.

The Governor accepts that central banks shared in these failings, operating a system of fire insurance whose ambiguity was anything but constructive when global markets were engulfed in flames. He adds that the Bank of England's general approach was consistent with the attitude of FICC markets, which historically relied heavily on informal codes and understandings. That informality was well suited to an earlier age. But as markets innovated and grew, it proved wanting.

He will say that we have all been let down by these developments. And we all share responsibility for fixing them.

The Governor will say that from next year, senior managers of banks and insurers will be held directly accountable for failures in their areas of responsibility and this should be extended to all firms active in FICC

markets, including dealers and asset managers. He adds that the best firms are improving the 'tone from the top', launching conduct training and revamping control structures. While the Bank expects markets and senior management to meet the highest standards of professional conduct, the Governor will announce that the Bank will also begin to apply the core principles of the Senior Managers Regimes to its own senior staff, including the Governor himself.

He identifies the large amount of reforms already implemented or underway to reform markets including the recommendations published today in the the Fair and Effective Markets Review and the actions taken by the Bank to modernise its operations following the Grabiner report. However, while the Governor believes that the main building blocks of reform are in place, he says that now is the time to take stock.

The Governor concludes that in order for markets to regain their social license, it is vital that public authorities and private market participants work together to reverse the tide of ethical drift. He makes clear that this cannot be a one-off exercise and needs continuous engagement so that market infrastructure keeps pace with market innovation.

The Governor will therefore announce that the Bank will hold an Open Forum this autumn that will bring together all stakeholders in FICC markets. He will say that the goal is to discuss the prospects for market functioning, where regulations might overlap or conflict, and whether enough has been done to build the real markets the UK deserves. To prompt an open discussion, the Bank will be publishing a detailed paper which reviews these issues and draws out such questions.

He adds that everyone has an interest in the future of financial markets, and strongly encourages engagement with the Open Forum process online and at the conference itself and says that an Open and Accountable Bank welcomes your input.

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