BANK OF ENGLAND

Speech

Lessons in lobbying

Remarks by

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Ladies and Gentlemen: Good evening. My name is Robert Jenkins. Not long ago I was a lobbyist for the investment industry[1]. I have now joined the ranks of the regulators I once tried to lobby. Specifically, I am a member of the interim Financial Policy Committee of the Bank of England. The "FPC" is the focal point for macro-prudential policy. The objective is to identify, and to the extent possible mitigate, threats to the UK financial system. At the moment, you might say our priority is to protect the banks from the financial system, and the financial system from the banks.

In a moment, I will have the honour to Chair the 3rd Gordon Midgley Memorial Debate. The topic is "short-termism" and our sponsor is a trade association. So before turning to the debate itself, allow me to pinch the podium to offer a few observations about short-termism (or more precisely short-sightedness) in lobbying. And for this, we need look no farther than the lobbying efforts of the banking industry in general and their campaign against banking reform in particular. Please note, that my remarks are my own.

Ladies and gentlemen, up to a point, it has been amusing to watch big banking's fight against financial reform. Remember their first response to the crisis? It was to deny the very need for reform. How dumb was that? They quickly regrouped.

The next phase was to acknowledge that reform was necessary - but only if the rules could be agreed to globally. "Level playing field" was the rallying cry. "We will if they will." This approach was less dumb – even clever. The lobby reasoned that global standards would be difficult to achieve and *if* achieved, would be set to the lowest common denominator of international consensus. The strategy was partially successful. The standards agreed were modest. Initial proposals were watered down. Best of all, the deadline for implementation was set for 2019 – a date so distant as to be irrelevant to any banker's career and so extended as to be vulnerable to lots more lobbying.

But the champagne celebrations proved brief - because the markets accelerated the timetable. They have accelerated the timetable in two ways. First, the continued turmoil has reminded regulators of the need for banks to strengthen their balance sheets. Second, prospective bank creditors and shareholders have rediscovered *risk adjusted* returns and are now adjusting for the risks that banks have been taking and continue to take.

The banking lobby has responded by blaming Basel. Listen to the logic – albeit in my own words. "The Basel rules require safer banks. We were not supposed to have to be safer until 2019. Now because of you regulators, the markets want us to be safe now. To be safe now would require us to reduce our leverage. We can't reduce our leverage by issuing equity because the markets are closed to new issuance. We <u>can</u> reduce leverage by curtailing intra-financial activity; or we can reduce leverage by reducing lending to the real economy. We will not do the former. We may well do the latter. If we do, it will be all your fault."

[1] Robert Jenkins served as Chairman of the Investment Management Association, UK from mid 2007 through the close of 2009.

In short the latest lobby tactic is to convince pundits, public and politicians that encouraging prudence too soon will hit the economy too hard. This is no longer amusing. This strategy is intellectually dishonest and potentially damaging.

It is dishonest because it is untrue. Politicians could abandon Basel altogether and it would not change the market view of many banks. What you *would* achieve is further erosion of confidence in the banking system. And it is potentially damaging because it promotes fear for an economy which the banks are there to serve and from which they draw their livelihood. For the truth is that banks *can* strengthen their balance sheets *without* harming the economy. They can do so by cutting bonuses, by curtailing intra-financial risk-taking and by raising term debt and equity. The markets are *not* closed to viable banks. Their executives are closed to the need to pay the price necessary to the raise the funds needed. For the sound, well run financial enterprise the money is there. It is just not there at yesterday's price. Indeed it may well be that today's prices discount to a large extent the need for more equity which the market requires and expects but which many bankers refuse to raise.

Thus a profession which should stand for integrity and prudence now supports a lobbying strategy that exploits misunderstanding and fear. I know that not all bankers agree with these tactics. They should stand up and distance themselves quickly. For in pursuing its short-sighted approach the banking lobby is unwittingly making the case for more intervention in an industry which refuses to reform.

As a former lobbyist I understand that lobbies are there to lobby; but I also know that leaders are there to lead. Bank lobbies are winning the battles and losing the war. As for bank leaders, they need to lobby less and lead a lot more.

And so ends our first lesson of the evening – a lesson in lobbying. Let us now move on to the second which revolves around the question of short-termism within the world of investing.