Bank of England

Mark Carney, Governor

Inclusive Capitalism Conference Audience Q&A

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Zanny Minton Beddoes: You said you wouldn't say anything interesting; I'm afraid on that count you failed dramatically. That was a pretty bracing analysis of the lack of inclusivity of financial capitalism. I'm just going to - I was scribbling notes furiously - I'm just going to quote a few things back to you. "Unchecked market fundamentalism can devour the social capital that's necessary for the dynamism of capitalism." You said that market fundamentalism contributed to the crisis and that ensuing events have further eroded trust in the system.

It was - if one just heard that, to hear that from the Governor of the Bank of England, in this location, in front of this audience, seems to me a fairly bracing analysis of the problems we're facing.

You then went on to offer some solutions and I want to push you on those a little bit more, because you gave a very big list of things to do. Which of your voluminous to-do list is the most important? And how much difference will it make? Will it make us feel better, or will it actually make capitalism more inclusive?

Mark Carney, Governor of the Bank of England: Well let me say two things, Zanny. The first is - I like this, it's a sort of Godlike voice, this is the voice I should have as Governor, booming down from the ceiling. What I said about the analysis - that is the analysis that has motivated these financial reforms. There's a recognition that there was over-reliance in markets clearing all the time, there was over-reliance in completing markets as a response to any problem that developed. And the collapse of those assumptions has led us to a series of changes.

Now which of those changes are the most important? I would start with "too big to fail", for several reasons, but the most important of which is that the presence of these institutions -

for two reasons. First is from a social capital perspective there's a fundamental sense of unfairness that was revealed, and for that reason alone it's necessary to make the adjustments.

But secondly, the existence of institutions at the core of the system that amplified any shock because of the possibility of their failing in a disorderly way, caused - leaves us with a fundamentally unstable system.

The consequence of that has been a series of measures in order to truly end "too big to fail". That's why six years after Lehman Brothers we're still talking about it. It's not that it's low on the priority list, it's that it's at the top of the priority list and authorities are truly working to ensure, as much as possible ex-ante, that that has happened.

Zanny Minton Beddoes: Christine Lagarde this morning said - and you quoted one part of what she said. She also said that fatigue had set in. Do you think that you're really on course to ending "too big to fail"? And then I'm going to open the floor to questions. But if this is the most important, are you really succeeding at it?

Mark Carney, Governor of the Bank of England: Well there are two crucial initiatives this year in order to substantially end "too big to fail". There'll be clean-up issues afterwards. But the first is to introduce so-called gone-concern loss-absorbing capacity, which is another layer of bail-inable capital - it's another layer of capital into the institution that is required to stabilise the institution before the taxpayers have to.

We're working flat out on this; there are nine jurisdictions that are host to the 29 "too big to fail banks", and the intent is to have the principles in place - the structure in place - by Brisbane. And we're on schedule, but I wouldn't downplay the difficulty of the technical issues there.

The second one we could actually solve almost in this room given the - I forget the trillion capital ...

Zanny Minton Beddoes: 30, 30 trillion.

Mark Carney, Governor of the Bank of England: ... 30 trillion of capital that's represented, which is to ensure that when a cross-border bank fails, that no particular group of creditors is unduly advantaged, particularly in derivative markets. And it's to introduce something called, basically stays on those derivative contracts.

We think we will have an agreement with the sell side with all the major derivative banks in the course of the next few months. That is very much because of the hard work and the leadership of the sell side. And we want to ensure that the buy side, the 30 trillion plus, is also supportive of that. Because if the buy side takes seriously their sense of the systemic, their commitment to the system, they also need to participate in something like this so that they're not taking advantage of everyone else who is working for the most inclusive solution.

Zanny Minton Beddoes: So we will have made serious progress in solving "too big to fail". Now I have a tonne of questions, but I'm quite sure that there are plenty of others. So if you let me put my glasses on so I can see you, yes why don't we start here?

Question: Thank you, Mark, that was fantastic. The Governor just prior to you had a wonderful speech just before the collapse of a large UK institution, and it was about the balance between market discipline, self-discipline and then regulatory discipline. Where is that balance now in what you've talked about?

Mark Carney, Governor of the

Bank of England: Well, no, I mean I think Mervyn's framework is right in that we're moving - even though we're putting in place a series of regulatory changes, what we're moving as much as possible is to more market discipline. It may not sound like it, it sounds like a lot of acronyms, a lot of people getting together in Basel and dreaming up new things.

But in effect what we're trying to do is to push back market discipline. So the advantage of the too big fail initiatives, whether it's bail-inable capital or other aspects, is that the private market holders of that debt will anticipate the risk that they are now running, the risk that they're not putting back onto the state, and encourage changes to how those businesses are run, how much capital they hold, how much liquidity they hold.

So the second element there is self-discipline - Mervyn's terminology - which is what - the responsibilities of senior management - making them absolutely clear that if you are a senior manager of a bank you are responsible for what that bank does. It's quite incredible that that's not absolutely clear either in corporate governance or regulatory terms. But in the aftermath of the 2008 crisis, at least in the UK, there's enough ambiguity about that that we're making it absolutely clear who's responsible for the management.

So I would put, even though there's a lot of regulation or regulatory initiatives, in the end we're trying to put the discipline back to the market and the individuals who interact with the market.

David Marsh: You're in a way on several sides of the trade as a central banker, Mr Governor, because you've talked about the buy side, but of course the central banks are very large owners of assets, 12 trillion dollars as a genre, then you add the sovereign funds and you add the public pension funds, soon you're talking about real money.

Laughter

You were mentioning earlier the social ostracism, which I suppose means that you no longer get a Christmas card from the Governor of the Bank of England.

Mark Carney, Governor of the Bank of England: Professional ostracism, David.

David Marsh: But you could actually use that buying power, that mass of assets, in a very good way as a kind of punishment to those don't really live up to the standards. And of course you could use that power of asset management in a very socially useful way. And I just wondered whether - not perhaps the Bank of England, but central banks as a whole - shouldn't use that mass, also if you throw in the other public groups that one has at one's disposal you would actually be an extraordinary force for good in all kinds of ways. And I wondered whether that has crossed your mind?

Mark Carney, Governor of the Bank of England: It has not been a conversation that we've had, first point. I would say that by and large the central banks, so the central bank asset managers, have implemented changes to market practices; they've been at the front end of implementing those changes to market practices. So, for example, two way margining on derivative contracts, even though many of them are Triple A, those have been implemented. Bank of Canada when I was there we did it at the front. So things such as these issues around derivative stays, one would expect that the central banks would.

I hesitate to suggest changes to the investment philosophies of broader public pools of capital. But I think you would find in talking to the managers of those pools that they tend to take a longer-term view, they tend to take a view about the system; they tend to think about how the system works, and they independently tend to manage their affairs consistently with that. And one sees that in terms of market share of various private institutions with those pools of capital.

Mark Carney, Governor of the Bank of England: I'm conscious that I'm keeping the Governor and you from your main course, so I'm going to have one or two quick questions, there was a gentleman there, yes.

Alan Yarrow, Chairman, CISI: Mr Governor, thank you very much for your introduction. My name is Alan Yarrow and I am Chairman of the CISI. We are an accrediting body for people who are in management. We've recently had the Lambert Review looking at what's happening in banks. He's come through with a very good suggestion that he's going to rely more on the professional bodies to make sure that their staff are properly qualified.

Mark Carney, Governor of the Bank of England: Yes.

Alan Yarrow, Chairman, CISI: He didn't go so far as to argue that they should remain as members of those professional bodies. Looking at regulation generally, regulation is introduced every day in our business, and keeping up with it is quite difficult. We already have an infrastructure for professional bodies. Do you endorse the idea that those people involved in finance should be members of professional bodies?

Mark Carney, Governor of the Bank of England: Yeah - well it depends on what you mean by endorse. Should they be members of professional bodies? Yes. Should those professional bodies be effective? Absolutely. Are they all effective? No. And if they're not effective should they be supplemented? Yes. So how's that for ... ?

Zanny Minton Beddoes: That's a pretty clear answer. One last question here, the gentleman here.

Jesse Norman: Thank you, Governor, for an absolutely fascinating speech. One word you haven't mentioned which I think everyone would agree is fundamental to inclusive capitalism is ownership. And I wonder whether you think that, given in many cases the reasons why these institutions failed in the financial sector can be traceable to poor ownership and poor selection of directors perhaps, whether you think there are things we can do to improve the quality of ownership of financial institutions or indeed the quality of ownership of companies more widely?

Mark Carney, Governor of the Bank of England: It's good it's just like being back at the TSE, Jesse. For those of you who don't know Jesse Norman, one of the leading members of the Treasury Select Committee, who has led both the TSE and also the Parliamentary Commission on Banking - have led many of the reforms here in the UK.

And one example, just to twin that point and your question, goes to the senior person's regime, which is an initiative that came from parliament; I referenced it in the speech, and has been implemented now by the PRA, the regulatory arm of the Bank of England. And the reason it goes right to the heart of this is that directors didn't fully recognise their obligations, including down to Chairmen in some of these failed institutions. And we're now in the process of making it absolutely clear their responsibility for all the activities of the institution, all the material activities of the institution, and that it will have consequences.

And we're making it clear ex-ante, which will have an impact I think in both the conduct of the institution, it will have an impact in terms of their interaction with their owners, with their shareholders and ultimately reduce this sense of systemic risk.

Zanny Minton Beddoes: I know there are lots more questions, but I think the Governor needs to have his dinner, and so do you. But Governor, thank you so much. That was extremely bracing and I think in some ways a call to arms.

Applause

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