Kalyeena Makortoff – Guardian:
Do you have any concerns about the Labour government's recent messaging, particularly the fact that they seem to be encouraging risk taking in the financial sector and criticising the effect of reforms introduced after the 2008 financial crisis. And does any of this been taken into consideration when you've been assessing how banks or the shadow banking sector, how they might end up posing more risks to financial stability in the coming years?

Andrew Bailey:
Well, let me let me go back to the remarks I made right at the beginning, because this is a very important question you raise. So, we are obviously very supportive of growth. And I'd refer you back to the speech I made to the mansion House, which really spent its whole time focusing on this question. But it is very important to emphasise, as I did, that there is no trade-off between growth and financial stability, and financial stability is the bedrock of having an economy that supports households and businesses in which growth can take place, and in which competitiveness can be put into effect and demonstrated.

Now, there are, of course, all sorts of choices about policies. Once we have financial stability and once, we can be assured of maintaining it. And there are important choices that we make all the time and have illustrated in the material that we've released today about exactly what we have to do to ensure financial stability. So let me give you an example. And Sam or Sarah might want to come in at this point. Switching from doing a stress test every year to doing one every two years, it's a decision we can now take because we have a banking system that is stable and it has demonstrated that stability for a period of time, and which we believe to be resilient going forwards. So, we can take that decision. And that decision is, you know, is in the interests of everybody. It will support, you know, a banking system which has sort of lower overhead cost attached to it. So those are the sorts of decisions we can take, but we can only take those decisions if we're in a world of financial stability.

Sam Woods:
Perhaps I could add briefly. I think the messaging is consistent with the instruction we have from Parliament in the form of a new objective on competitiveness and growth. But that is a secondary objective. So, we're not being invited or instructed to in any way put financial stability or safety and soundness at risk. The question is, can we deliver that objective in a more efficient and proportionate way that's more helpful for competitiveness and growth? And I think Andrew gives a very good example. We think we can now deliver what we've been getting through stress testing by doing the big, heavy, burdensome tests every other year because of the amount of resilience that's been built up since we started.

Sarah Breeden:
And if I might add, one of the things that we could also do, and we also have done, is understand how the financial services sector, through the activities it provides, can support growth. So, some of the things is the work that we've done recently include working with the FCA and the Treasury on supporting productive finance through the long term assets work that we've done, we've sought to improve the ability of the financial services system to use third party providers like Cloud in a safe way. We've supported innovation in money and payments, and we've sought, through our work on climate change to increase awareness of risks and so support the transition to net zero. And I think

under all of those things, we've sought to deliver financial stability, but also at the same time support growth.

Ben Martin – Times:
There are some quite big estimates now for the compensation that might have to be paid out because of the motor finance issue that could destabilise, particularly the motor finance market. Do you think that could be something that's sort of verging on a financial stability issue? Moody's have estimated a £30 billion payout. And you know, this could we've already seen signs that the parts of the motor market have frozen up.

Sam Woods:
Thanks, Ben. As you'd expect, we've been spending a lot of time on that issue. I think the best way to answer your question is actually to look at the desk-based stress test we published today. So, what we did in that test, we did not attempt to make a point estimate on that particular issue. As you say, Ben, there are many issues out there, many estimates out there, including the ones that you mentioned. What we did instead was take a crude, but I think prudent approach. So, we've taken the average of the conduct hit that we've had in the first two years of each of the last three stress tests, that's £5 billion a year, and we've run that for every year of the test. So that's quite conservative because in those previous tests, those costs were very front loaded. That's a £25 billion hit through the course of the test. And what you will see is that even while taking a hit of that size, while also experiencing a very severe macroeconomic downturn, the system still has plenty of headroom. And one point to bear in mind, of course, is that compared to the numbers that you were quoting, those are for the motor finance system as a whole. And of course, we've only got part of that in this test.

Ben Martin - Times

(Inaudible – no microphone)

Sam Woods:
So, I think what I'd say is that we do not consider that issue to be a risk to financial stability. but misconduct has often been quite a significant headwind. And therefore, you know, our job is to make sure that we're capturing that appropriately in a kind of stress testing that we do. The DBST are published today. And the heavy bottom-up test is for the big banks. But for any bank in this country, we do stress testing. They do stress testing through their ICAAP, and they have to take account of a reasonable, stressed view of what conduits could be.

John-Paul Ford Rojas - Daily Mail:
A couple of things, please. There seems to be an increase in this report in the risks of global fragmentation. Has that risk been increased by the election of a US president who advocates sharp i increases in trade tariffs? And could that…could the rise in such risks lead to the kind of sharp, severe shocks that are described in the in the SWES?

If I may, a second question has the impact of the budget and measures in the budget on financial stability, particularly in the corporate sector being looked at. There's many specialists in the insolvency warning of a rise in insolvencies to come over the coming months, particularly as a result of the National Insurance changes.

Andrew Bailey:
Yes. So, start with start with the global point. Um, let me reiterate to start with what I've said a number of times. I said it at the monetary policy press conference we had not that long ago. I think it's very important in the case of the outcome of the US election, that I think I used the phrase when all is said and done, and we wait for the administration actually to come into office to decide what its policies are going to be, you know, we've had the saying if you like or we're having the saying, but I think it's really important, of course, that we, you know, we recognize that it's the doing that matters. And so, I think it's very important to, you know, to let that process happen. And we'll see.

Two points I'll make on your point about risks. First of all, obviously, however, you know, risks move on the basis of what is expected or to happen or what might happen. And we are seeing increased risk of global fragmentation. But I would say this, that there are quite a lot of causes of that. And I don't think it's right to just pin it on one particular event. We are living in a world that is, I'm afraid, more uncertain on a number of fronts, with a number of very difficult events going on around the world. And so, of course, you can see that in, for instance, in the systemic risk survey that we run, that geopolitical risks figure very, very strongly in that. And of course, therefore we do have to watch those risks very carefully. It's why we use stress testing both of the desk-based sort that Sam was talking about and the SWES and that is a part of factoring that in into the risks. So, I can assure you that we'll be watching. We are watching, and we'll continue to watch these risks very carefully. And of course, our job is to ensure that the system is resilient to those risks.

On the budget, I mean, it's very much the same answer. We are not, I would say at the moment, seeing signs of any sign of an increase in what I would call corporate distress. To make your point, I don't think we're seeing any signs of that. But as you would expect, we will watch very carefully to see how the effects of all of this pass through into both the corporate and the household sector. That's our job. And we will continue to do that.

Laura Noonan - Bloomberg News:
Just on the SWES and the policy work that you kind of hinted to that needed to take place both domestically in the UK and also internationally, given the growth push and given where the politics is internationally, how confident are you about actually being able to advance policies around NBFIs here and overseas and then actually implement them?

Andrew Bailey:
Well, sure. Sarah wants to come on this. I mean, you're right, Laura, that of course it does rely on a very large amount of international coordination. Because of the nature of the risks and the nature of the sector we're dealing with. I think one of the one of the facts that we've always pointed to that illustrates this, that if you go back to the LDI issue, most of those funds were not UK domiciled. Just to give an example, but of course, the markets we're dealing with here as well, in terms of the SWES are actually obviously by the very nature of very, very interconnected internationally. So, we have to, you know, to have international coordination and we have to have international action. It's why all three of us spend a large amount of our time involved in the Global Financial Stability Board,

because that's obviously necessary, important. And the FSB is hugely important in the work it does, and we will continue to do that. I think that the SWES is very important in this. I mean, I'm afraid you may detect that we're rather proud of the SWES because it is it is world leading. And we're going to say that frankly, because it is it's a very novel approach. Now, I think it's also it's novel in terms of what it does. It's also novel I think in terms of the situation we find ourselves in today, because I think that we are seeing, you know, quite a, you know, a pushback on what are called rule making and I think going back to the first question that was asked, actually, it's our job, of course, to point out the risks and then to ensure that we're resilient to them. And I think one of the important elements there is to have very good tools of surveillance so that we can lay out the issues, we can model the issues. And the SWES is very sort of innovative in terms of using the firms themselves to actually, in a sense, build those risks and that modelling. And so, I think being able to lay out using very good surveillance tools and say, look, here's the issues. Now what are we going to do is important.

Sarah Breeden:
If I might add three things that are specifics that flow, I think, from the SWES and that help us articulate where there is a case for action, we can look at how the resilience, for example, of money funds is above their minimum requirements under the regulatory system and use that as evidence as to why money funds, not all of which are domiciled here in the UK, may need to have higher requirements. We can use the results in respect of how, for example, leveraged players behave in the SWES to illustrate how, in the context of the FSB's work on non-bank leverage, concentrated correlated positions matter more. Not all leverage is bad, but some is and how it is priced in normal times, if its priced low, haircuts are low. As we show in the FSR, it's more likely to increase in stress, which can amplify it. Again, the SWES really evidences that and gives us a great set of data to take into those discussions.

And then the final thing I'd say is that there are some things that we can do on our own. Some of the learnings relate to the gilt repo market. That's something that we can do in the UK to support resilience of the markets that are core to our financial stability. So, I think all these three things really illustrate how Andrew's point that the SWES gives us the evidence to support the action that is required.

David Robinson - Market News
The SWES refers to the risk of a jump to illiquidity in the sterling corporate bond market. Now, unlike other areas, you don't seem to have very concrete plans about how you deal with this other than talking and assessment. At the same time, we're hearing a lot about growth matters the need for capital deepening chronic underinvestment in the UK. Isn't there a risk that the message people take from this is just don't buy sterling corporate bonds? Or if you do demand a high premium and you just add to the problems.

Sarah Breeden:
Why don't I take that one? Look, the value of the SWES is that it has shown us how stress in one market can cascade into stress in another, and we're able to see that in peacetime and do something about it before we find ourselves in that context, in that environment. Second thing I'd say is do remember how big a stress the SWES is. It's faster, it's more wide ranging. It's more persistent than

anything we've seen in the past. And so, one should expect there to be a market reaction to it. Nonetheless, your point about jump to illiquidity is well made. One of the things we're doing is working with the Pensions Regulator so that they can work with their pension fund regulatees in order to work out how they are thinking about these issues. And there is some work for us to do to understand how long such a stress would last for. If it's two days, that's very different than if it's two months. So, there is more work for us to do. The great thing is that the SWES has highlighted that in advance. And to Laura's point from before, we will be taking this into the international debates too.

Andrew Bailey:
I think I'd just add one rather simple point, which is I think we should also, it's also important to have a sense of proportion here. I mean, it's I would wager that there are probably more long-term investors in the corporate bond market than there are in some other markets, which is why, for instance, something like the basis trade isn't done in the in the corporate bond market. So, you know, in some ways we are we are revealing some of the basic facts of these markets. But as Sarah says, the point about the SWES is that it just lays it out and says, you know, here's the dynamics of these markets.

Sarah Breeden:
Perhaps I might add one other thing. In all of financial stability analysis, you build resilience in advance, but you don't build resilience to every possible state of the world, because to do so would be expensive and disproportionate. So, some of the learnings can sometimes be for how do you deal with those events?

Martin Arnold - Financial Times
I have two questions, if I may. The first is the ten-year borrowing costs of France recently rose above those of Greece, and there are significant concerns about some of the high levels of sovereign debt and high budget deficits out there. Has the Bank of England taken any action to examine the risks that could potentially stem from a rise in bond vigilantism if I can call it that.

And the second is as a result of the SWES, are you more or less concerned about the risks to the financial system from outside the banks? Thank you.

Andrew Bailey:
I'll take well, I'll start the first one. You may want to come in also on the second one. Well, I mean, obviously we obviously watch the movement in, in government bond rates, as you say. I mean, one thing I would say is, and we've drawn this point out in quite a lot of financial stability reports over recent years is that obviously, you know, we do see actually, if anything, a shift in bond markets towards higher levels of borrowing on the sovereign side. As we point out in this financial stability report, when you look at the UK, Actually, UK households and corporates are actually not showing the same, the same signs in that respect. So, there is naturally that follows there is more focus on sovereign debt markets. And of course, as the SWES shows, they are actually very important in terms of broader transmission of financial stability. So, for that reason, we do watch it very carefully. Now, you know, we can obviously, you know, we can obviously attest from our own experiences of a couple of years ago that, you know, sovereign bond markets can move around very quickly. And you do have to be ready to deal with the consequences of that. What I would just say again, is that's why

I think having the tools of surveillance and then, as Sarah was saying, having the tools to respond is so important in this world, and particularly where we're talking about market risk in this sense. And as Sarah rightly said, some of those tools are what I would call standing regulation. But some of the tools are actually central bank intervention tools because the cost of actually having standing regulation much further out into the tail of the distribution of bad outcomes is very high and gets disproportionate. This is another aspect of this growth versus financial stability debate. You know, it is more efficient to have central bank tools to come in and deal with those events often. Point I would finally make on that, though, is that and this is what we're doing and you'll have seen we've you know, we're going to introduce our own repo facility, for instance, in this area that I think it's important that while we are not providing standing facilities to the non-bank world, that's a big distinction between banks and non-banks formalizing so that people understand what what's going to happen from our side if and when we do have to intervene in those sorts of stress situations and therefore laying them out on a more formal basis, rather than us going off into a huddle in the middle of the night and coming up with something as we, you know, we have done I think is a very good thing because it increases the transparency of the market's understanding of where we will be.

Sarah Breeden:
And on your question about, are we more or less worried? We've been talking about the resilience and the importance of market based finance for a long time. What the SWES has done is give us really clear sight of where there is more work to do. So there was some good news on the resilience of the gilt market, that the actions that we've taken, that market participants had taken meant that that market was resilient to the stress. But we also saw how individually rational actions in the gilt repo market could lead to collective stress that meant that the market was less resilient than it could be. And so there's some work there for us to do. So am I more or less worried? I always was worried. I think this gives us a real agenda for our next steps, and that gives us confidence that at least we know what to do.

Andrew Bailey:
I'm only worried when Sarah's is not worried.

Tim Wallace - Daily Telegraph.
Two questions as well, please, if I may. firstly, given your worries on sovereign debt, how concerned are you about the UK's debt trajectory that the OBR spelled out last month as quite a, quite a big increase coming up? Is that sustainable? Are there risks to that given the global hazards you've listed in the FSR?

And secondly, on cyber-attacks, what sort of cyber-attacks do you have in mind? What do you have in mind there? Is it hostile states attacking banks at the minute or is it terrorist groups or fraudsters which sort of threats should we be concerned over?

Andrew Bailey:
Start on the OBR. The OBR set out, as you said, actually a long run trajectory. And that's a very good thing that they do. I think the thing that I take from that is that it's a very timely and important reminder. And of course, this is not, by the way, I mean, the UK is not unique in this respect at all, by the way. I mean, it's not unusual that we have some very big headwinds running against us, I would say almost globally.

And the three that I would pick out are aging population. Obviously, the UK is not at all unusual in this respect. I mean, it's common amongst almost all industrialised countries and obviously the consequences of an aging population.

The second one I would pick out is the fact that the post-Cold War sort of, in a sense dividend in terms of defense spending seems unfortunately and very sadly, to have come to an end.

The third one is climate change. Now, be a bit careful on what I say here because I don't, I don't want for a moment to suggest that it is the responsibility of the state to tackle the on its own the consequences of climate change. But I think states do, I think, have a role there to play. You can take all sorts of views on, on sort of climate change. Unfortunately we as a regulator of particularly of insurance companies, for instance, do see some, some signs that I'm afraid there is evidence of it.

But the point is, I think all of those three things are very big structural challenges that are affecting many countries, UK included. And it's right for the OBR to point to these sort of trajectory issues over the long term, because they really illustrate and bring into sharp relief the challenges that we are dealing with. it's not about politics in any direct sense. It's about structural challenges that we're facing.

On cyber, I mean, cyber is you're very right to point to it. First of all, if you ask me which risk has come fastest up the league table since the global financial crisis in the last 15 years. It's cyber. it has come very fast up the league table. That's the first thing I'd say. The second thing is it never goes away. And that's a difference.

A lot of what we're doing is, is mitigating risks in the sense of trying to sort of, in a sense, create a situation where over the long run, we can be much more comfortable about the risks. Unfortunately, with cyber, we obviously have to mitigate it. By the way, don't for a moment get me wrong on that, but I'm afraid the other thing we have to recognise is that it is constantly evolving as we speak.

Sam Woods:
I think maybe just to add briefly, I think it's reasonable for us to be even more concerned about that in a period of rising geopolitical tensions. And as the boundary between state and non-state threat actors in this area is not entirely clear. So we are very much on that. We're developing further the penetration testing regime that we've had in place for many years. But as Andrew was saying, that has to keep evolving, to keep pace with the changing nature of the threat.

We've also had a very significant uplift of operational resilience across the financial sector. And we've got a key deadline actually in Q1 of next year. Now, that's not just cyber, but I think it's worth making that point because of course, the most dramatic impact we've had, at least this year, I would say fortunately, not so much in financial services, but was not, in fact from a cyber-attack. It was from the CrowdStrike incident. And that illustrates that need for a wider operational resilience. So that's also an area where we continue to develop.

Lawrence White - Reuters.
Just building on the earlier discussion about the system wide exercise and the kind of actions arising from it. Can you elaborate on the findings of the SWES, on the mismatch in expectations between Non-banks need for funding from banks in the crisis and the banks willingness to provide it? And

what explains that mismatch? Is it just that that they wanted more from banks were willing to provide? And what can you do about it? Because it seems quite key to the findings of the SWES?

Sarah Breeden:
So look, there's two aspects of demand for funding. One is quantity and one is the haircuts that are applied. The learnings from the SWES showed us three things. Firstly, banks were prepared to roll Existing levels of funding. Two. Where expectations were of more funding, not all of those would be accommodated. And third, that the haircuts applied to that funding would increase. And there's a great chart in the FSR that shows for much of gilt repo, the modal haircut, the most common haircut is zero, so it can only go one way in a stress. So what the SWES does is highlight those issues, enables us to show to the world that if you're expecting more funding to come through in a stress, it might not happen and the provision of that will be at tighter terms. So you need to react to that.

Now your question was should we be encouraging that provision of funding. These are driven by counterparty credit risk concerns. They're commercial decisions. It's not a reaction to any prudential requirement, so I don't think it would be wise for us to be encouraging it. But what we can do is put the terms on which it is provided in normal conditions, on a more resilient basis to think about minimum haircuts, for example. And we could also think about whether central clearing would be a sensible addition to do so. I think it's shone a light on this mismatch of expectations and highlighted how important that might be for financial stability, and there's stuff for us to do. But encouraging banks to provide the repo at terms that they're not commercially comfortable with doesn't strike me as the right response.

Hannah Brennan - Politico.
Just to follow up the questions on the international work, are you concerned at all about a retrenchment by the US that the standard setters like the FSB. And how much do you need us buy in for the international reforms. And separately on clearinghouses, the equivalence decision with the EU expires mid next year. Is that something you're already considering or contingency planning for?

Andrew Bailey:
So on the US, I'll go back to my point that it is too soon to judge, obviously, where the new administration is going to be. They haven't actually obviously, no appointments have been made in the world of regulation yet. I would also, though, have emphasised on this point, I would emphasise very strongly. And by the way this was our experience, in the first Trump administration. So I do want to draw on that. That the reason that we have international standards in our world and the reason we have international bodies like the FSB, is not just because we're obsessed with regulation. It's actually because those are the bases not only of financial stability, but they're actually also the basis of competitiveness. Because you have to have a sort of foundation of which competitiveness can take place. And if you don't have that foundation, then that is when the problems start.

I know quite old history now, but if you go back to the origins of the Basel Accord, which actually was a US, UK agreement originally back in the 1980s. It always seems a little hard to remember that this was true in those days. It was actually a response to what concerns about whether the competitiveness, the global competitiveness of the Japanese banks was actually sustainable. And of course, it turned out not to be sustainable. So it was the right thing to do.

So I would very strongly emphasise that we have these international standards setting bodies. We have international standards, not just, as I say, out of an obsession with regulation, but actually because it's the basis of competitiveness as well as the basis of financial stability.

On clearing in the EU, we engaged very closely with the EU. I've said a number of times recently that in my view, it has been right from the day after the referendum. It was very important that we stay very engaged with our counterparts and we have done, and we will do. And I think that gets the best outcomes for financial stability. I think it gets the best outcomes for the EU financial sector, and the best outcomes for the UK financial sector as well.

We stand ready to talk to the new commission once they come into being on Sunday I think it is. we will engage with them as we did with the commission that's about to leave. And I we will certainly engage on clearing and all other FS issues.

ENDS