Mark Carney: Introduction to the Open Forum

Introduction by Mr Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, to the Bank of England Open Forum, London, 11 November 2015.

* * *

Thank you, Lord Mayor for your extraordinary service this past year and for your gracious hospitality today.

Welcome, everyone, to the Open Forum.

In a building that started its life in 1411 as “a little cottage”.[1]

And which has become the place to bring people together:

Livery companies and businesses,

Traders and market makers,

World leaders and citizens.

Today, we draw inspiration from this great tradition by gathering representatives from across civil society to discuss how to build the real markets of tomorrow.

The Bank of England has a statutory responsibility to protect and enhance the stability of the financial system in the UK. Therefore, even if we don’t regulate markets per se, we have a close interest in working with others to create real markets that enjoy the trust of society whilst effectively allocating capital and risk.

Markets can be powerful drivers of prosperity and security for all.

Financial markets matter. By financing firms to hire, invest and expand, markets drive growth.

By opening up cross border trade and investment they create new opportunities for businesses and savers.

By transferring risks to those most willing and able to bear them markets help households and investors insure against the unexpected.

Indeed markets are becoming ever more important as individuals bear increasing responsibility for financing their retirements and insuring risks. It is vital markets work well - and are seen to do so.

Only real markets can deliver.

Real markets are resilient. They don’t collapse when the going gets tough.

Real markets are fair. Participants compete on merit rather than collude online.

Real markets aren’t ends in themselves but means to much greater ends.

Only markets that transparently serve the real economy can retain the trust of society to operate; in other words, only real markets have social licence.

The crisis and its aftermath laid bare that many of our markets didn’t live up to these standards.

At times, some of the most important Fixed Income, Currencies and Commodities (FICC) markets proved fragile, unfair, ineffective and unaccountable.

The twin crises of the solvency and legitimacy of finance undermined trust in market mechanisms and the effectiveness of the financial system.

---

1 *Old and New London* by Walter Thornbury ('Guildhall', *Old and New London: Volume 1* (1878), pp. 383-396.

It is hardly surprising that only a third of people believe markets work in the interests of society.[2]

The more people see, the less they like. People trust markets less with age.

And yet, most people think markets will become ever more important.

And they're right. As I wrote this week to G20 Leaders, the structure of financial system has changed significantly since the crisis. Virtually all of the net credit since the crisis has been from the bond markets and the size of assets under management has increased by 60% to $74 trillion.

Real markets don't just happen. They depend on the quality of the market infrastructure.

That means hard infrastructure, the plumbing of markets that determines the mechanics of markets; and soft infrastructure, like standards and codes that define how market participants should behave.

Robust market infrastructure is a public good. But like many public goods it risks being undersupplied.

If taken for granted the infrastructure that supports markets won't keep pace with their dynamism; just as it failed to do so in the run-up to the crisis.

We all have a responsibility to stop this from happening again.

That's why I am delighted that so many people are here today, joining those that have already participated in panels in Manchester and Cambridge.

I am also very pleased that we will be hearing from many others who are attending parallel forums in Birmingham and Edinburgh.

And that people are already sharing comments, ideas and thoughts on social media.

For the first time, people who connect with markets from all sides and in all ways are being brought together. Not just bankers, traders and regulators; but companies, investors, workers, academics, judges, trade unionists and journalists.

That's important. Because we all rely on markets and we are all affected by them.

And because everyone who connects with markets can help rebuild the real markets we need.

The good news is that today isn't the beginning of this process.

Over the past seven years, a huge programme of reform has been underway to fix the fault lines that led to the crisis and to build more resilient sources of finance to serve the real economy.[3]

The UK has played a leading role, consistent with our position as the pre-eminent global financial centre.

40% of global foreign exchange trading goes through London.

Half of all trades in OTC interest rate derivatives.

Two-thirds of trading in international bonds.

And more international banking activity is booked here than anywhere else.

---

2 Bank of England survey results. Bank of England survey results. Respondents were asked for their views on the statement 'I believe that financial markets work in the interest of society'. Possible responses were: strongly agree, agree, neutral, disagree, strongly disagree.

3 See the FSB Chair's letter to G20 Leaders, available at http://www.financialstabilityboard.org/2015/11/financial-reforms-achieving-and-sustaining-resilience-for-all/.

Great strides have been made in making the system more resilient.

The banks that sit at the centre of many markets are safer, with capital requirements that have increased ten-fold and liquid assets on balance sheets that have risen four-fold.

A new, simple leverage ratio requirement protects the system from risks that we think are low but in fact are not.

Banks' trading assets have fallen by a third since the crisis, and their interbank borrowings have been cut by almost a half.

Banks' newfound resilience has been demonstrated recently, as they have dampened – rather than amplified – short-lived but significant financial market volatility.

And those banks must be resilient because they can no longer rely on the support of the state.

This week the Financial Stability Board proposed to G20 Leaders a landmark agreement on the Total Loss Absorbing Capacity which is central to ending Too Big To Fail in the banking system.

Once implemented, it will ensure that large financial institutions can fail without disrupting the financial system or calling on taxpayers to bail them out.

The era of heads-I-win; tails-you-lose capitalism is drawing to a close.

Complex webs of derivatives are being simplified and made safer.

We are also working to turn the tide of ethical drift. Market benchmarks have been reformed to end abuse.

Most importantly, market participants are being made accountable for their actions.

Misconduct will be met with genuine penalties.

By holding individuals accountable, authorities are ending the Age of Irresponsibility.

The best in industry are playing a leading role, for example, by getting the FICC Markets Standards Board up and running.

The Board will establish clearly understood standards, keep them up-to-date with market developments and promote adherence.

In parallel, the Banking Standards Board is promoting higher standards of conduct and competence across the UK banking sector.

To give these measures teeth, Her Majesty's Government is extending the Senior Managers Regime to all firms in FICC markets and putting them on a common basis with banks and insurers.

Being a senior manager in finance now brings the responsibility and accountability that befits what the best in the industry have long recognised: finance is a true profession.

The Bank of England's role in markets has been comprehensively overhauled. We're replacing constructive ambiguity with open for business when we provide liquidity to markets.

We're working with others as One Bank to develop markets that support financial stability and the real economy.

We've revamped our governance and we're holding ourselves to the highest standards of accountability, including the Senior Managers Regime on top of parliamentary and public scrutiny.

So a huge amount has already been completed to make markets fairer, more resilient, accountable and effective.

These reforms are essential for the UK to remain the leading international financial centre.

They are essential not least because the size of the UK-based market-based financial system could increase from six to nearly 15 times UK GDP by 2050.

But the journey isn't finished.

Today is a chance to take stock and reflect: not just on our achievements but on what we might have missed, overdone, or simply got wrong.

Given the complexity and scale of financial reform, it would be remarkable if every measure were perfectly constructed. Or if they all fit seamlessly into a totally coherent, self-reinforcing whole.

Authorities must have the courage to listen, the honesty to admit our mistakes and the confidence to set them right.

Because we're determined not to repeat the cycles of the past when bursts of post-crisis reforms would eventually drift into complacency and cohabitation.

When the caravan moved on, markets were left unattended to slip slowly into excess and ethical drift.

Today we want not only to profile progress made, but also to spur a continual process of review and reform. This isn't just about fixing the fault lines that caused the last crisis, but also about seizing new opportunities from fintech and market-based finance. It's about building truly global markets, in the UK and elsewhere, and the cross-border governance and cooperation they need to function well.

It is precisely because we don't know all the answers that we're setting questions before us today:

- What more needs to be done? Are there gaps that will ultimately allow markets to go wrong again?
- Are there other places where the pendulum has swung too far, preventing markets from serving society as they should?
- And are there other changes needed to build the necessary supports over time?

We want to hear from those who might question the steps already taken. We welcome new ideas that challenge conventions of how markets should operate, and whose eyes are fixed on the future of markets that will become ever more important.

I'm only sorry there couldn't be more of us here today.

We were four times oversubscribed for places.

But I trust that those unable to be here in person are following us via the web, and will interact throughout the day.

They'll also be joined by some of the 5000 pupils from the 300 schools who watched our webinar earlier this week.

After all, those students will reap the rewards and bear the consequences of financial reform. They will be the ultimate judges of our efforts.

Our first speaker today has set out clearly the standards against which those judgements should be made.

As he said five months ago: "Five years from now, UK financial services will be the best regulated in the world, with markets of unquestioned integrity and the highest standards of conduct.

There will be more competition, more innovation and more players in retail markets – offering customers a better service.

There will be new firms disrupting the status quo, and big firms raising their game in response, with Britain leading the fintech revolution."

Please join me in welcoming the Chancellor of the Exchequer, the Right Honourable George Osborne to the stage, to begin the debate.