Bank of England, FCA and US Commodity Futures Trading Commission press conference

Monday 25 February 2019

Anna Isaac: Anna Isaac, The Telegraph. Could I ask both Mr Giancarlo and Mr Carney what you make of-, you made a big point today of avoiding market fragmentation, that's a bit part of what you're doing, you're making good on those G20 commitments in the wake of the financial crisis. To what extent do you agree with the deep concerns expressed by London Clearing House and other market participants that new provisions being brought forward by the European Commission on location policy of Clearing House's systemic importance could risk future market fragmentation and what steps you're taking together to avoid that?

Christopher Giancarlo: Do you want to go first?

Mark Carney: Yes, okay. No, no. I insist, Chris. Well, I think the first thing, let me start with the last bit of your question. The steps we can take together, the steps we're announcing today and this commitment, as Andrew just eloquently put, as did Chris, to open resilient markets underpinned by the highest standards of regulation and regulatory cooperation. A recognition embedded in that there will be slightly different regulatory-, there are different regulatory traditions, they will be slightly different approaches, and as you referenced Anna in your question, that requires taking that G20 approach, an approach of deference substituted compliance in order to make that happen. I think the key thing to recognise, I know you know this but to reemphasise, is this is the vast majority of cross-border derivatives, US, UK. This is where the big wholesale markets are, these are the most integrated markets and this is being taken off the table. I'll just make one observation on location policy, which is to reemphasise something that's been there in the past, which is that we recognise than the onshoring of euro interest rate swaps, if I can put it that way, does run a risk of creating an illiquidity premium in those swaps and, you know, a basis point difference, which seems like a very small amount given the volume, is €20 billion plus potentially of costs.

As Chair Giancarlo said in his opening remarks, of course that's born ultimately by savers, by businesses, by the real economy, it flows through the participants in these markets so we continue to work closely with our European colleagues, both the FCA and ourselves, as does the CFTC, to keep these markets open and certainly from the Bank of England's perspective and the FCA's perspective temporary recognition regimes, temporary permission regimes, we put those in place, we provided those recognitions to keep these markets as integrated as possible. We'll continue to work with the Europeans going forward. Chris.

CG: Thank you for taking that first, Mark, it gave me a chance to formulate my thoughts on this and my thoughts are really to take a sort of a longer term perspective. If you think about the growth of the global swaps market that grew up in the last few decades of the 20th Century, it grew into a truly global non-fragmented marketplace but with London as really the central servicing centre for clearing and settlement, and contract formation, others, and we in the United States remained quite comfortable with that throughout that development. Very conscious of it but we were confident in the quality of the regulation, the quality of the oversight and the strong cooperation between ourselves and our UK colleagues. Financial crisis came, a decision was made at the G20 level to bring this over-the-counter market within the scope of regulation and yet even in the Pittsburgh Accords in 2009 there was a commitment not to fragment the market, to impose regulation in a way that doesn't fragment the market and yet there are concerns about fragmentation in the global marketplace. I think today's statement is really a statement of continuity that all the factors that made us in the United States comfortable with London as a major servicing centre for this marketplace remain in place today.

The quality of the regulation, the quality of oversight, the quality of the cooperation, and as Governor Carney said, the bulk of the marketplace, the bulk of the transactions take place across the Atlantic and so today is statement of continuity in that cross Atlantic trade supervision and regulation.

Huw Jones: Yes, Huw Jones, Reuters. Philip Hammond mentions in the press release the special relationship in action again, so is Britain getting any more out of the CFTC today than it already gets under the EU, if we stayed in the EU in the sense of more access to the US territories markets? Also, how do you see the framework evolving? Dispute resolution, that sort of thing, which Britain wants from the EU in the enhanced equivalence.

CG: The way I would put it is the way I think we are putting it is that this is about continuity. This is about continuing the trade cross Atlantic, giving the markets confidence that there will be continuity in supervision, continuity in recognition, continuity in oversight as there is today. Yet it's a relationship that over decades is one that evolves with the times, it evolves with circumstances and I'm quite certain that as needs arise this is a relationship that will continue to evolve as necessary.

David Milliken: David Milliken, Reuters. Just a question for the Governor in the sense that this is an agreement that's meant to be useful whatever form Brexit takes but I was wondering now whether you see an increase in chance that Brexit will be, sort of, delayed and won't take place on March 29th.

MC: Well, let me refer back to what Andrew Bailey said a moment ago is we don't take a position on Brexit, you know, the timing or form thereof. We do take the same position of the FCA in terms of being prepared for whatever eventuality, all eventualities and of course the most stringent of those, the most constraining, the biggest issue from a financial stability perspective, from a market integrity perspective, from a continuity perspective is a no deal scenario by the end of March. What today's announcement tells market participants and ultimately households and businesses in the US, the UK, and quite frankly around the world who benefit from these markets, it tells them that these markets, the most important, the most sophisticated, the most complex derivative markets in the world are going to continue to function on April 1st, which is the first trading day after March 29th, whatever form Brexit takes.

CG: I would add that these arrangements are to signal continuity to market participants but also to signal long-term continuity, they're not tied to a short-term timeframe, they will come into effect whatever form Brexit takes and for a long duration.

Philip Stafford: Philip Stafford from the Financial Times. You guys have clearly got this long-term framework, you recognise the quality of each other's regulation here. Obviously the elephant in the room is what the EU is doing with EMIR 2.2. You've both said you have problems with that as it stands, would you potentially not seek equivalence from the EU if things continue as they are?

CG: Well, our focus in everything we're talking about today, Philip, is cross Atlantic and cross Atlantic between London and the United States, and Britain and the United States. In other forums my concerns about EMIR have been made known, I don't have anything to add to them today. Really our focus is making sure that bulk of swaps transactions and derivatives transactions that is a UK US has the requisite continuity that's necessary for market participants to feel confident in it.

AB: Well, I fully underline that, I mean, I think Chris is absolutely right. It is all about the long-term. I mean, I would just, sort of, slightly put your question together with the previous one. I think it's important to emphasise when you talk about location policy in this context that because location policy isn't really about Brexit per se, it's been around for a long time, before that. It's really about the tension between are markets global or is there a desire to have this type of business done within the currency area? Now, I think you're very clear from everything we've said which side of that line we fall and therefore that the regulatory system should support it. We take the view that markets are naturally global, these markets are naturally global and should continue to be so, and as Chris pointed out in the height of the crisis that point was embedded in the Pittsburgh Conclusions.

PS: I wasn't thinking so much of location but collateral management and oversight of that.

AB: Well, I think you have to see the whole thing together. This is about, you know, where we are content for activity to take place. Secondly, what are the standards that we want to see? We tend to talk a lot about outcomes based equivalence versus rules based equivalence and, again, as you can see, at the heart of what we're announcing today is the continued commitment to a system of outcome based equivalence.

Roger James: Hi, my names Roger James. I'm from Total Derivatives. I just wanted to ask, there are a lot of things happening with reference rates at the moment, SONIA and SOFRA, and so on, does this agreement have implications for the development of those things? Do you see that as something that will assist them or is it not directly relevant?

MC: I don't think it's directly relevant per se but I think this is a fantastic opportunity for Andrew Bailey to talk about it, to give us an update on it.

AB: Well, first of all, I should say I'm also going to bring Chris in on this because actually all three of us worked very closely together on reference rates. So, Chris and the Governor should obviously feel free. Well, what it does do, so here's the important thing, we do need to see and are seeing the development of derivatives markets in the new reference rates, SONIA, SOFRA and other things. That's part of what we need to see as we switch over from the LIBOR system, so obviously anything that encourages and provides continuity in the markets in which this will happen is a good thing. So, the fact that this will support open markets in the derivatives contracts that are developing at SONIA and SOFRA, for instance, that's a good thing.

CG: The only thing I'd add to that is it's another example of the longstanding quality of the relationship between regulators in the UK and regulators in the United States, the cooperation that's been present throughout this entire LIBOR process has been first rate, it's been efficient, it's been thorough and, again, another example of this longstanding ability to work well together on these global markets.

MC: Maybe I can just finish up and try to bring a few things together, which is that, you know, it's incredibly important, these markets are incredibly important. I think everyone can recognise that, they really matter to households and businesses in all our jurisdictions, all our countries and globally. We believe in getting these markets right, we've worked very hard to bring up these markets to the highest standards. In order to have integrated markets, open markets you need those high standards and you need supervisory cooperation. You need to share information, you need to have supervisory cooperation and have the respect and that's what exists between the US and the UK, between the agencies represented here, also with the SCC (ph 25.45) and by extension other agencies in our home jurisdictions. That is the format of globalised capital markets going forward, a format which has deference to different approaches which has openness and cooperation and that is a platform, that to go to the last question, which then allows new markets to develop that can serve the system better, that can hold households and businesses better.

So, as Chris, Chair Giancarlo and Andrew have been emphasising, the importance, there's a short-term importance to this which is short-term continuity and reassurance but really what matters is the longer term platform that is created because that is what's going to serve needs that we haven't yet anticipated but the market will get to and will be able to do with this. With that maybe I'll thank everyone. Oh, sorry.

Katherine Griffiths: Hi, Katherine Griffiths from The Times. I wondered if I can ask Chairman Giancarlo if you could tell us do you think this agreement today has any bearing on the likelihood of a decent UK, US trade deal at all? Does it create some sort of wider goodwill across the system? Thanks.

CG: Thank you. Well, I certainly think it creates wider goodwill across the system. Trade is outside of my wheelhouse and so I don't want to address that but there is very strong goodwill. I know that a lot of your focus, rightly so, is cross channel and I think that perhaps many, many took it for granted that the UK and the US would work things out but the reason we're here today is to say that those discussions have been going on all along and that this is vitally important for us to get it right and also to make this announcement today to actually make the assumption the reality that in fact the United States and the UK have a long history of working together in financial services, have a long process of supervisory cooperation, of policy development cooperation, whether it's in the area of LIBOR or in other areas and those efforts continue and they're longstanding and I think they stand us in very good stead for what may come from that going forward.