HOUSE OF COMMONS

Treasury Committee

Oral evidence: Appointment of Liz Oakes to the Financial Policy Committee, HC 765

Tuesday 21 May 2024

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[Watch the meeting]

Members present: Dame Harriett Baldwin (Chair); Dr Thérèse Coffey; Samantha Dixon; Dame Angela Eagle; Stephen Hammond; Danny Kruger.

Questions 1 - 81

Witness

I: Liz Oakes, Appointee, Financial Policy Committee.

Examination of witness

Witness: Liz Oakes.

Q1 **Chair:** Welcome to this morning's Treasury Committee evidence session on the appointment of Liz Oakes to the Financial Policy Committee. Prior to coming today, Ms Oakes submitted a CV and a questionnaire, which are about to be published on our website in the next few minutes. I will start by inviting our witness to introduce herself to us today.

Liz Oakes: Good morning. I am delighted to be here with you today. I am Liz Oakes. I am an independent non-exec director of a European fintech. I am a very well-known payments expert in the global sphere. I formerly was at Mastercard, some time ago, but I have recently been appointed by the Chancellor of the Exchequer to the Financial Policy Committee as an external member.

Q2 **Chair:** Thank you very much for being with us this morning. As you just highlighted, you have gone through a rigorous selection process organised by the Treasury, where it has chosen you to be appointed to this vacancy on the Financial Policy Committee. I wondered whether you could tell the Committee at what point in the search process you realised that you would have to recuse yourself from everything to do with payments, which is your area of expertise.

Liz Oakes: It has been a very interesting experience. It has been a very lengthy process. It is probably in the last three to four weeks that that conversation has really crystallised.

Q3 **Chair:** You were given the offer and then they realised that you were actually going to have to recuse yourself from the vast area of decision-making on your area of expertise.

Liz Oakes: As the process went by, it was evident that my experience is broader than just payment systems and certainly broader than the area around stablecoin. I spent many years as a consultant. Yes, payments may have been the anchor point for a lot of my previous experience, but the skillset that I have developed spans a much broader area of expertise. The conversations around the perception of conflict were the critical point where the Governor took probably a stronger view than I might have taken myself on that recusal.

Q4 **Chair:** That is interesting. You went through the entire selection process. The head hunter approached you and you went through the whole interview process. It was very rigorous. It was decided you were the appointable candidate and it was only at that point that your entire expertise effectively got ruled out of discussions by the Governor himself.

Liz Oakes: I probably would not describe it as my entire expertise, but I would certainly say that it is the anchor point for which many people know me more broadly in the industry. I am sure you will appreciate that many of the things that I have been doing in my professional career have been commercially sensitive, particularly things around resolution of issues within banks, the development of systems that might interface to payment systems, for example, and the operational running of systemically important payment systems. Many of the skills that I have learned, I believe, are very transferable. Understanding operational risk and resilience within that type of environment has crossover into many other areas that the FPC is looking at.

Q5 **Chair:** In the job description and the specification that you were sent by the head hunter, did it say they were looking for someone with skills in payment systems?

Liz Oakes: Not specifically, no. That was a conversation that I had with the head hunter, to ask, "How relevant is my experience in payment systems?" Typically, with boards or committees, you are looking to fill an expertise or skills gap. That was not necessarily the focus. It was interesting to the committee, but it was not specific.

Q6 **Chair:** To clarify the reasons why you have been asked to recuse yourself from all Financial Policy Committee discussions on payment systems, for people who are watching out there, you are an executive director of Mangopay.

Liz Oakes: I am an independent non-exec.

Q7 **Chair:** You are a non-executive director of Mangopay. I can see that that is one reason you have been asked to recuse yourself from discussions around payment systems. Secondly, you have significant holdings in Mastercard. Can you tell the Committee how significant those holdings are?

Liz Oakes: I have declared those to the Bank's conflict committee. I believe that they are not material, as they have described it, but I have been very transparent with that. They have copies of all of my financial holdings, irrespective. I have been very open and transparent. I understand how important that is to you, but also to the wider group at the Bank. As far as I understand, that is something that is very often the case. It is a legacy shareholding purely from my employment there.

Q8 **Chair:** Are you able to sell them, or are they locked up for a period of time?

Liz Oakes: There are some that are locked up for a period of time. There are some that I could sell, but I have made an undertaking to the Bank not to do that for the duration of my period that I work there.

Q9 **Chair:** You have two choices. You could either not sell them or sell them before you start.

Liz Oakes: To be honest, I regard them as something for my pension. I do not have any intention of trading those shares in the medium to longer term.

Q10 **Chair:** Are they significant enough for you to have had to recuse yourself from payments issues, even if you were not a non-executive director of Mangopay?

Liz Oakes: No, I believe not.

Q11 **Chair:** Is that what the Bank's compliance team told you?

Liz Oakes: Yes, it is. I believe that actually it is more about the perception of conflict. My understanding would be, also because Mastercard owns and operates the Vocalink business in the UK, which is the operator of systemically important payment systems in the UK, that it is more about the perception of conflict.

Q12 **Chair:** You are also a non-executive director of Advent International Stargate, which is a private equity investor. To what extent have you been told that you will have to recuse yourself from any discussions on the financial policy consequences of the private equity sector in the UK?

Liz Oakes: We discussed that at length and I am not being recused on that topic. I have no influence over the activities of Advent International.

Q13 **Chair:** You do not have any influence on Mastercard either.

Liz Oakes: No, but I probably come with knowledge of how everything operates because I have spent so many years in that context.

Q14 **Chair:** You must have knowledge of Advent International Stargate as well.

Liz Oakes: Stargate is a holding company; it is the parent holding company for the Mangopay businesses. I do not have any insight into how Advent itself operates its own business. I would not claim to be an expert on private equity.

Q15 **Chair:** You have had a discussion with the Bank and it has said you do not need to recuse yourself in the area of private equity, despite the fact that another member of the Financial Policy Committee told us that they thought private equity was a financial policy risk in the UK.

Liz Oakes: Yes, and I would agree with that statement.

Q16 **Chair:** You agree it is a risk, but you have not recused on that. Can you talk me through what the Bank's thinking was on the difference between these two issues?

Liz Oakes: I had a lengthy discussion with the Bank's secretary, the conflicts officer, around to what extent I am involved with anything to do with Advent. Advent happens to be the owner of both the Stargate and the Mangopay businesses. My role with Mangopay specifically, and with Stargate, is around governance, risk and compliance, and the direction of the business, not Advent. I have no influence whatsoever over decisions Advent makes about divestment or acquisition of that business, so, in that instance, they saw no conflict.

Q17 **Chair:** This has all been documented and minuted, and a decision has been taken by the Governor on this one as well.

Liz Oakes: I believe so, yes.

Q18 **Chair:** You believe so.

Liz Oakes: I have not seen that documented decision, but I believe so.

Q19 **Chair:** Was there a documented decision on recusing yourself from all the payments systems decisions?

Liz Oakes: I have not seen it, but I believe there probably is. I am happy to take that away as something to go and find out more about myself, to be honest, because it has all happened quite quickly in the last few weeks.

Q20 **Chair:** What was your motivation in applying to be a member of the Financial Policy Committee? What was it about your background that made this role appeal?

Liz Oakes: I am quite happy to share that it did not occur to me in the first instance. I was approached by a head hunter. As they described in more detail what the FPC is looking for and how the FPC operates, I was very interested and excited about the role. I have a background in risk management that goes back specifically around the payment systems and banking in the UK and abroad over the last 25 years. It is something I have been working on since I started my career. It is an area that is very close to the operational experience that I have had.

I can bring to bear more insight from industry in terms of the operationalisation of some of these policies and what it actually means when you have to do something that the FPC has asked for. Also, my focus since leaving Mastercard has very clearly been on growth companies. How you balance risk management with innovation, growth and enterprise is a really important aspect for me. It is quite often very difficult, when you look at the regulatory agenda, to see where those two things come together. It is not as apparent and so the interests of industry are quite often not necessarily front and centre in the decisions that are being made, or that is not how it appears. That perception and communication is really interesting to me.

Q21 **Chair:** You must be disappointed that so much of your expertise is something that you will not be able to contribute because you have been asked to recuse yourself from so much to do with the payment system that is the work of the Financial Policy Committee.

Liz Oakes: I asked the same questions of the Bank secretary and was assured that many of the areas that I have been working in previously are the remit of either the FMI team at the Bank or other parts of the regulatory supervision area of the Bank, whether that is the PRA or the FCA. To the extent to which I will still be able to have conversations and support team members within the Bank where they are making investigations or decisions, or have thoughts, or want to talk about things, I am very happy to do that. It is just that I will draw a boundary around decisions that are made at the FPC regarding issues to do with the payment systems.

Q22 **Chair:** In your opinion, it would not be worth you selling your shares in Mastercard or stepping down from Mangopay in order to take up this role where you could have a complete oversight of all the issues that the Financial Policy Committee is looking at.

Liz Oakes: To start with, it was not suggested. Secondly, from a personal standpoint, I find that it grounds me in reality, working with companies like Mangopay, in terms of the challenges and day-to-day issues that come up around being an EMI in the UK or across Europe, and the development of technology and those services.

Chair: EMI, for the benefit of the television audience, is electronic money institution. Alright, I figured that one out.

Liz Oakes: I find that it is helpful to have that commercial flavour of what the reality actually looks like on the ground. I do not have any desire to sell my Mastercard shares just because it did not appear to be something that was required. I do not believe that that is actually what has triggered that decision.

Q23 **Chair:** If you were required to do it, would you take up the position?

Liz Oakes: Yes.

Q24 **Chair:** You would, okay. You may have read what this Committee has said about Mastercard, have you, in the past?

Liz Oakes: No, not specifically.

Q25 **Stephen Hammond:** Good morning and thank you for coming to give evidence this morning. Back in December, there was an extract from the financial policy summary that said that they are maintaining a neutral setting of the UK countercyclical buffer in the region of 2% and that would help to ensure banks continue to have capacity to absorb unexpected future shocks without restricting lending. I guess I have two immediate questions. First, in regard to the countercyclical buffer, could you set out for us what circumstances you see would be appropriate for the FPC to consider either reducing it or increasing it? At the moment, in terms of the balance of probability, would you be arguing for it to be increased or reduced?

Liz Oakes: It is a really complex area. I look forward to actually learning an awful lot more about the countercyclical buffer and how it operates in the coming weeks. For me, it is a very important mechanism to be able to ensure that lending continues to flow in the market when there is a crisis of some kind happening. That is certainly what we have seen during Covid. The idea that the FPC can react quite quickly and enable banks to continue lending out into the market when there is a time of distress is very important.

At the moment, I understand that the countercyclical buffer has been reinstated at the 2%. The idea is to ensure that there is enough there to be able to cope with any incremental crisis that comes along. In the context of the fact that it is countercyclical, I would imagine that, at the moment, the focus would be more on looking at whether vulnerabilities are building again in particular segments of the market and whether, therefore, there is a need to raise the countercyclical buffer. Given current inflation rates and interest rates, I would probably not see that there was any argument right now to decrease it or to release it. I do not know whether that answers your question.

Q26 **Stephen Hammond:** Yes, sort of. From the economic circumstances at the moment, the economy appears to be marginally improving. We saw the revision to GDP numbers last week. I hear what you say. Of course, there have been academic and BIS studies about the impact on loan growth, depending on where the buffer is set at, although there have been a number of recent academic studies that suggest that perhaps we have not fully understood the impact. I was wondering whether you had looked at any of those, what impact you felt there would be on bank lending when the buffers are released and whether you think the impact is symmetrical whether they are released or expanded.

Liz Oakes: One question I have myself, and I look forward to digging more into this, is how operationally you can use the buffer. If the buffer is released, banks would quite clearly look at this and think, "Okay, so the buffer is being released, but when is it coming back again?" How long do you have and what is the duration and maturity of lending that can be achieved in that timeframe?

For me, that is an operational practical question that I look forward to digging into. If you release the buffer, that is great, but do banks then in reality actually use the buffer? How do they use it and what does it actually mean? If you turn around in 12 months' time and say, "We are over that immediate crisis. We are going to build the buffer back again", you cannot turn round to the businesses you have just lent money to and ask them for it back. It does not work quite like that.

Q27 **Stephen Hammond:** Are you arguing that the buffer has some significance, but the reality is that we should be looking at longer-lasting measures that have an impact?

Liz Oakes: Potentially, or there may be a way of tiering how the buffer is used, for example. Those are just ideas in my own head. I would need to learn far more about how it actually works in practice.

Q28 **Stephen Hammond:** A recent study suggested that one concern about releasing the buffer is that, while it has the positive effect of releasing lending, it might take higher risk taking. At least two of the recent studies are suggesting that actually that higher risk taking does not happen.

Liz Oakes: I would not necessarily assume that the availability of funds for a bank to lend influences the risk level that it will take on. Those two things do not necessarily correlate.

Q29 **Stephen Hammond:** You are not surprised by that finding.

Liz Oakes: I am not surprised by it at all.

Q30 **Stephen Hammond:** In terms of the macroprudential tools that the FPC has, for instance in regard to housing, do you think they need reform or updating?

Liz Oakes: They appear to be working very well at the moment. I do not feel at the moment that there is a requirement to reform them. I believe that there is ongoing work on stress testing on all sorts of desk-based and practical exercises looking at the impact of the current policy tools. In terms of the mortgage market, while many households are under duress, it seems to be holding up. I do not have a view that there is anything chronically wrong or anything that needs immediate reform.

Q31 **Stephen Hammond:** Looking back at the sweep of recent history, are there any decisions that the FPC has taken that you think could have been done differently or would have been better if it had acted more swiftly or taken different decisions in terms of the economy or the financial services sector?

Liz Oakes: I guess that one area that will always come up is the LDI crisis, where clearly it was something that was identified quite a long time ago as being a potential risk. At the same time, with the benefit of hindsight it is easy to look back and say, "We should have picked that up earlier", but often these risks do not materialise or crystallise in the way that you anticipated at the time. The fact that somebody had thought about it previously and actually figured out that there may potentially even be a problem is a good starting point.

Given the complexity of the markets, technology and systems, and how all of these different things are connected, I am not convinced that we could ever predict every single potential and plausible shock. The question is whether we can put enough resilience into the marketplace to be able to deal with it when it happens.

Q32 **Stephen Hammond:** There are a number of unexpected shocks and you cannot predict all of them. The Committee heard about some of the forecasting problems that the Bank is now looking at. Do we have the tools at the moment in the FPC that allow you to anticipate or look at—you have cited LDI—some of the shocks that are definitely going to happen?

Liz Oakes: I have not started yet, so I look forward to finding out more about those tools, how they operate and particularly, for me, around the countercyclical buffer, all the indicators that are used and the data elements that are collected. I am quite a data-driven person, so I am looking forward to finding out more about those.

Q33 **Stephen Hammond:** On your first meeting at the FPC, if the chair gives you the floor to say what your concerns are, what would you say at the moment your concerns are? What will you be outlaying to the FPC?

Liz Oakes: I have not been privy to data or a huge amount of information prior to starting. I do not start until 3 June, which is interesting because it is at the beginning of that cycle, so I will have a very fast uptake of information. I look forward to finding out more from the current work that the FPC is working on. I understand that it is around things like private equity. There are a number of topics coming to the team. Right now, I am not party to enough information to say precisely what the context of that meeting will be.

Q34 **Stephen Hammond:** I have one final question, if I may. You have had a chance to look at how financial supervision happens in other countries. How would you say the FPC compares and are there any positives or deficits that need adjusting or correcting?

Liz Oakes: More broadly, not just the FPC but the operation of the three committees within the bank and the regulatory framework in the UK is very highly regarded around the world. Quite often, I have worked in circumstances where other countries are trying to copy what we have done. Quite often, when they copy things, they then innovate themselves and come up with things that are particular to their own markets or innovations that we might look upon and think, "Okay, we should do the same thing". It is a continually evolving situation. In general, it is very highly regarded.

Q35 **Dr Coffey:** Thank you for coming today. We had the situation, eighteen months ago, with the mini-budget and the LDI element that happened there. In terms of market-based finance, it certainly seems to be the case that the underlying vulnerabilities in the system identified by the FPC are largely unaddressed. I wanted to get a sense from you on thinking that through. Do you agree with that assessment that the FPC has made? Are more powers needed? What should be done to improve transparency in reporting? Could the Bank have acted earlier to mitigate the risks that have been highlighted on LDIs already?

Liz Oakes: To the beginning of your question around whether I agree with the FPC, at this point I have no information to disagree. Broadly, I think yes, because we have a system where we have had a build-up of activity and investment from the private credit and private equity sector that is less transparent, shall we say, than the regulated environment under the PRA and the FCA. That, by its very nature, means that there is less transparency.

The other thing to bear in mind is that these flows of funds are global and international in nature. In order to obtain more transparency, it will require collaboration and work with other regulators around the world. It is also something to consider. How does the UK want to position itself in the context of those flows of investment funds and particularly how that investment fund flow would impact the corporate sector?

Q36 **Dr Coffey:** Do you think the Bank unilaterally could have acted earlier, though, to mitigate the risks that we then saw exposed fully in autumn 2022?

Liz Oakes: I do not know.

Q37 **Dr Coffey:** Thinking it through, you talked about this being an international element. I think that you have stated that regulators should remain mindful of the benefits non-bank financial institutions bring to the economy and its competitiveness that needs to be maintained vis-à-vis other jurisdictions. Where does the balance between competitiveness and prudence lie in assessing the financial stability risks from these non-bank financial institutions?

Liz Oakes: One of the complexities is leverage. Other financial system members may be exposed at different layers and levels of private equity investment in corporates and in funds, to the extent where you cannot assess portfolio risk. Then you have, potentially, leverage or exposure where a bank or financial institution is exposed to private equity or private credit and does not actually know about it. That is probably the biggest area of concern.

Secondly, while I recognise that non-bank financial institutions play a very important role not just in financing companies as they grow, but in providing advice, capability and competency to improve the management of companies, they need to be mindful of the debt burden that they are placing on organisations, particularly at the point at which we are now in the economic cycle, where interest rates have risen and inflation is rising. We have had a benign environment for a very long time. Now the picture has changed and we need to figure out how to deal with that.

Q38 **Dr Coffey:** You mentioned it being global. Should the bank and regulators in the UK be doing more to mitigate risks that we have here effectively while awaiting an international agreement? There is a risk that, if we just wait for an international agreement, those risks could grow even bigger.

Liz Oakes: I would think so, yes. To start with, we take our own decisions as a country and regulate our own industries in the way that we see fit. Many countries will choose to follow that, quite honestly. I do not think you could wait around for international co-operation forever. At the same time, there has to be consultation. We have to be mindful of the impact that it might have, not just on other jurisdictions, but on the flight of capital out of the UK should we impose regulatory burdens that were unsustainable. It is a very fine balancing act.

Q39 **Dr Coffey:** Was it Advent International? Is that the holding company you referred to earlier?

Liz Oakes: Advent is a private equity company.

Q40 **Dr Coffey:** Sorry, I thought I had heard the phrase "holding company" earlier. The Bank has been not sceptical about private equity but increasingly concerned about some of the things you have just raised about increasing leverage. Could there be a collapse in private equity?

Liz Oakes: I am afraid that that is not something I feel appropriately informed to comment on.

Q41 **Dr Coffey:** We have seen aspects in the water industry. The water industry has a different economic regulator. We have seen how private equity has historically—I think going back to the noughties—massively leveraged in particular Thames Water. That rate of leverage, despite Ofwat trying to get it to do so, has not really come down. Are there any particular aspects in private equity that concern you, in terms of what could be done about financial stability risks or what the Bank of England could do about them?

Liz Oakes: This is just my personal opinion. In the same way that we saw with Silicon Valley Bank for example, if you have concentration risk in any sector where you have just invested in one particular area, you leave yourself open to a fall or a particular impact in that area ruining your portfolio. There is definitely something there around balancing expertise. You often find that teams in particular organisations will go after or invest in things that they know and are comfortable with, but there is a need for portfolio analysis and a lack of concentration risk.

Q42 **Dr Coffey:** Mr Kroszner, who is already a member of the FPC, has raised the issue that there is an attractiveness to going private. You do not have quite the same number of requirements on the banking industry. There is risk, though, in going into these more—"shadowy" is too strong a word—opaque financing avenues. Has regulation of the banking industry caused or exacerbated risk to financial stability posed by the non-bank sector?

Liz Oakes: The burden of regulatory oversight is not unknown to these organisations. Many will choose to operate, whether it is through regulatory oversight or licensing regimes, in different ways to suit their business model. It is challenging. It is a challenging overhead to have to meet all of the requirements of multiple regulators in multiple jurisdictions, on top of the needs of, as a public company, reporting out to the stock market. People take different paths and particularly at different times in the cycle of that business. I have seen companies go public, then be taken private and then go public again or be sold off. It depends on the growth trajectory and what they are seeking to achieve. I am not entirely sure that I would trade off that activity as being something that is a reaction to regulation.

Q43 **Dr Coffey:** That is helpful. Moving into other aspects of risk, such as climate change and nature, how adequately do you think that businesses in the financial sector are mitigating against the risks of climate change? We have had TCFD. I am hoping we will get TNFD to be thinking about that long term. Is there anything more they could do, or should do?

Liz Oakes: I hope that we all feel we should do more. I feel that we are very early in the cycle of how we are going to do this and what gets done. I see that it is rightly the role of Government to dictate the pace at which these things happen and the way in which the FPC or other regulators get involved in figuring out what our role is in this.

I find climate change incredibly complex from a Financial Policy Committee perspective. There is the physical aspect of dealing with the changes that it brings. I have certainly been at the forefront of that in my career, in terms of location of data centres and having to think about what happens if there is a hurricane or an earthquake, or telecommunication lines go down, and how you put operational resilience in place to deal with these challenges. I am acutely aware of that side of it. I am very interested in how we make increased use of the cloud, for example, to mitigate those risks and figure out other ways of operating.

In terms of the actual costs of transition, and the move towards net zero, that is something that I personally have on my list of things to learn more about, particularly as it pertains to the insurance market, because insurance is not an area that I have spent a huge amount of time in.

Q44 **Dr Coffey:** That is useful to know. The Chancellor adjusted the remit, removing specific environmental sustainability and climate change from the fore, moving more into boosting productive finance. I wanted to get a sense of the variety of primary and secondary objectives to support the

Government's overall objectives for growth, employment and housing. Is there any sense of where you think those could end up being in conflict or there are too many things now that you are trying to cover, when ultimately it is about market stability?

Liz Oakes: I do not feel that there is a conflict because I believe that all of these elements are intrinsically part of the challenge. Climate change is probably something that I have been working on for a number of years as an example, and it is transitioning now more into a fact of life and a mainstream element of all of the conditions that we have to look at. To me, that is also potentially a growth area, so how we invest in the right type of technologies, capabilities and competencies. I do not necessarily think that it is a conflict. It is just a change in the way that we operate.

Q45 **Dr Coffey:** One of the things that you have mentioned in your questionnaire was talking about actively engaging and communicating the FPC's work with the public and industry, hosting citizens panels and similar. Why does that matter? Why does the role of the FPC matter to our constituents?

Liz Oakes: At a very personal level, I had not really heard an awful lot about the FPC before I entered into this process. I guess I knew it existed. I had come across members on occasion. I knew that there are lots of committees within the Bank that work on these things, so I had comfort that there was lots of activity going on, but I had never really thought about what the role of the FPC is and what it does.

For market participants, it is one thing because they probably read all of the fantastic reports that we put out and spend a lot of time looking at the Bank of England website. I am not convinced that the general public actually do. For people to have certainty and more of a sense of security that there is work going on to maintain the stability of the financial markets is really important. There is a very interesting question about the difference in communication styles and how we get the message across. I understand that the Bank's teams have reached out to schools and to various communities, so I am looking forward to finding out more about that. I am very happy to get involved.

Dr Coffey: For what it is worth, I advocate listening to Steph McGovern and Robert Peston's "The Rest Is Money" podcast. It brings a lot of things together in a very well-communicated way. I will leave it there.

Q46 **Samantha Dixon:** Given that the Bank rate appears to have plateaued for the time being, to what extent have financial instability risks arising from interest rate rises been contained, in your opinion?

Liz Oakes: I am definitely not here to comment on the current decisions around interest rates. That is absolutely for the MPC to determine. In the context of the risks around both inflation and high interest rates, my understanding is that at the moment we do not see an extraordinary level of financial stability issues, in the sense that the mortgage market is functioning well. We do not see a huge amount of default.

I recognise, however, that the current situation has put pressure on an awful lot of households around the country and that that continues to be a pressure point. Despite the fact that inflation may be coming down or plateauing, it does not negate the fact that price rises have gone up quite considerably over the last few years and are not going down anytime soon.

The question for me is more around how the current rate will actually feed into the market, because there is a lag. As people are continuing to have to refinance their mortgages during this year, as the rate has not come down yet, that continues to be a problem. For many people, there may be a considerable differential between the interest rate that they were on previously, on a fixed rate, and the rate that they come on to now. There is an experience that we are all going through as members of the public and then there is what the financial stability challenge is. As I understand it from looking at the numbers and the percentages of default et cetera, we have come out of the crisis in a reasonably good way.

Q47 **Samantha Dixon:** To what extent does the sustainability of household debt depend on unemployment remaining low?

Liz Oakes: I would agree that it depends on unemployment remaining low. We have stress-tested to a level of 8% unemployment, which is obviously not where we are now, thankfully. I get comfort from the fact that the stress tests have gone to those extremes and to quite a significant extreme of default rates within mortgage holders, and that the banking system can withstand that.

Q48 **Samantha Dixon:** Would you say that financial instability risks arising from businesses are greater or less than those arising from households?

Liz Oakes: The large business sector appears to be robust and continuing to be profitable and to maintain its path. I recognise that, in small businesses in particular, there is much more of a challenge. Small businesses are much more dependent on different forms of finance than larger businesses. They have less opportunity to raise finance in the market and that is something that we all see on the high street at the moment.

Q49 **Samantha Dixon:** How concerned are you about the growth in highly-leveraged corporate loans and private credit in businesses? Does that worry you?

Liz Oakes: I am not sure that I am particularly worried about it, in the sense that it is a valid way of growing a business. The extent to which corporates actually avail of that type of finance is reasonably mitigated, in the sense that it is not a prevalent or predominant source of funding. I am not overly concerned.

Q50 **Samantha Dixon:** What is the potential for high public debt levels in major economies to lead to financial instability risks in the future? What can central banks do to mitigate such risks?

Liz Oakes: We are running at very high public debt levels globally. That is a feature of what we have been through in the last few years, particularly with the pandemic. Governments around the world have stepped in, with huge injections of funding into their national economies to support resilience. I would agree that it is a challenge. It is a problem. I am not sure that there is an awful lot that can be done about it, in that that is where we are in the current cycle, given what has happened around the world.

Q51 **Samantha Dixon:** Would you say that there is a danger that the absence of major repercussions from that higher public debt has lulled people into a false sense of security around public sector debt levels?

Liz Oakes: I find it very hard to comment on what the man on the street believes about public sector debt levels. I believe that, if we communicated well that we still have to deal with the aftermath of the huge Government support that was injected during the pandemic, people would understand that. I think the vast majority of people who may have been furloughed or received loans through many of the schemes have not forgotten that.

Q52 **Dame Angela Eagle:** You have said that you believe that current geopolitical and cyber risks have the potential to pose significant threats to financial stability, which seems quite obvious to me. Do you want to tell us a bit more about how you see that playing out and what can be done to mitigate?

Liz Oakes: I will take them separately to start off with. We are in an unprecedented time, whether it is wars or political instability, given what is happening with Russia and Ukraine, what is happening in the Middle East and various other things happening in jurisdictions such as Venezuela and Guyana that cause significant disruption to trade and trade finance, displacement of people and general uncertainty. Uncertainty often is the thing that drives that financial instability, not knowing how long any of these events is likely to last, for example. Is it a short-term problem? Is it a longer-term problem? What does it mean for the economies of countries that are supporting or countries whose trade has been disrupted?

That is what I mean by geopolitical risk. I personally had the experience of having to close down a business in Russia when sanctions were imposed. The complexity of trying to do that was quite significant. It is quite financially disruptive to an organisation. It is also disruptive to counterparty credit lines and the ways that people operate and do business. Other companies will have experienced similar shocks.

In terms of cyber, it is undoubtedly the one threat that all companies, financial or non-financial, are worried about. Ransomware attacks are very prevalent. Also the individual consumer or the individual person on the street is witnessing repercussions of cyber attacks where their data has been leaked. Potentially they then see lots of emails, phone calls and people trying to scam them. The combination of cyber, financial crime and AI is probably the thing that worries me.

Q53 **Dame Angela Eagle:** What do you think the policy committee can do about it, given that these things are coming from different places, from state actors, from terrorist or crime groups, all focusing in on not only trying to blackmail companies—and that is the ransomware-style attacks—but also defrauding individuals, which the FCA tends to deal with in our jurisdiction? All of it is about markets not being clean and some of it is about hybrid war involving authoritarian countries. How does the committee you are about to join get to deal with this and what would make you feel less worried about it? What kinds of protections need to be inaugurated? At the moment, our capacity to tackle fraud seems to be pathetic. That would be my assessment of it.

Liz Oakes: From the context of the FPC, the focus is very much on financial stability of both market infrastructures and market participants. That is somewhere we can lean in to make sure that operational resilience, which is the subject of a recent paper by the committee, is really co-ordinated. That would be where I am coming from, in the sense that, the more that you can talk to other market participants and share experiences and best practices in fighting this, the more resilient the UK will be as a result.

It is very much an ecosystem challenge, in that threat vectors come in to various actors in the market. It is not a question of saying, "I am okay because I fixed mine", because we all interact with each other. The challenge is a collective challenge, rather than an individual one. Moving that conversation on to the fact that this is not just a line of business cost to one business, but is about protecting all of us, is something that the FPC can lean in on.

Q54 **Dame Angela Eagle:** You talked about closing down a business in Russia. Well done for doing that, because obviously there are sanctions and you have to do that. We have been taking evidence on the effectiveness of sanctions against Russia on this committee. We heard last week from Bill Browder that not a single inquiry has been opened in this jurisdiction by any of the agencies dealing with any piece of Russian money laundering. Do you think that that is a worry from a financial stability point of view? It seems to me that our reputation is that our markets are getting dirtier rather than cleaner.

Liz Oakes: I have not had exposure to the information that I think you are alluding to, in terms of what the regulatory authorities here have been looking at from an anti-money laundering or KYC perspective. It is a very complex thing to tackle. It is often a question of post-event reporting when you actually determine or find out what has been happening, partly because of the challenges that we have in ownership records and beneficial ownership records, particularly outside this jurisdiction. When trying to identify who the beneficial owner is, quite often it is hidden through layers of organisations, different names and different jurisdictions.

At the end of the day, when you impose sanctions on any entity or individual they will seek out whatever means they can to continue to do whatever business they were doing or to trade. They can be quite creative about how they go about doing that. I can understand that it is a huge challenge. I suspect that we are under-resourced and underfunding that area.

Q55 **Dame Angela Eagle:** There is no doubt about that.

Liz Oakes: The question usually comes down to who is paying for it and who is mandated with that activity to take that forward, crack on and find those people, and then what you do about it when you identify who they are.

Q56 **Dame Angela Eagle:** This is an issue for financial stability, is it not?

Liz Oakes: At this point, I do not know. I would like to investigate that and come back.

Q57 **Dame Angela Eagle:** You do not much worry about whether markets are clean or dirty, or whether they are infiltrated by terrorist money, Putin's oligarch mates' money or any other kind of narco-money. That is not a problem for the functioning of markets from your point of view.

Liz Oakes: I am very concerned about it. From a personal standpoint, I have advocated for and been working on effective anti-money laundering controls and terrorist financing controls for many years. I recognise that it is a very complex area. The focus of the Financial Policy Committee, though, has been on financial stability. We believe that we have very robust controls, particularly in the wholesale markets in the UK. I believe that there is significant activity every day in trying to stop, track and trace, and monitor what is happening. I have been involved in that from a domestic standpoint in the UK.

Q58 **Dame Angela Eagle:** You would be in favour of transparency in terms of beneficial ownership, dealing with tax havens, and the opaque nature of trusts and funding that comes from and hides in those places.

Liz Oakes: Yes, very much so. I look forward to the reforms to Companies House, which I believe will make a significant difference in moving that agenda forward.

Q59 **Dame Angela Eagle:** What about transparency of beneficial ownership for trusts and things like that?

Liz Oakes: As I understood it, that is something that is moving forward.

Q60 **Dame Angela Eagle:** At a snail's pace, I would probably say. In terms of the changes to interest rates that are happening at the moment—and you referred to this really, given your private equity contacts—the model for private equity in the past has been to buy up companies, restructure them, quite often load them with debt, take money out for profits and leave them very indebted when they are sold on. That is really not a model that does anything but cause risk now, is it, given that interest rates have risen so high and servicing that debt is so much harder?

Liz Oakes: To be clear, that would not characterise my experience of private equity. I have not operated in or around organisations that have been operating in that way. My experience of private equity, though, has been much more from the perspective of operating a business that may have been owned by private equity.

Certainly, I have acquired a business that had previously been owned by private equity and actually the case was almost the opposite, in terms of the input that the private equity company had put into improving the management and the effectiveness of the business. In terms of what you described around loading up companies with debt, I am sure that that happens. It has just not been my experience to date. I do not have a very strong view on that right now, but it is something that I look forward to learning more about.

Q61 **Danny Kruger:** Hi. I have a few questions about general risks. Going back to, as it were, the day before yesterday, which was before the huge expansion of innovation in payment systems and in financial services generally, do you regard the duopoly of Mastercard and Visa as a problem and a risk? Do you think that the expansion of new innovative payment systems is going to help alleviate the potential risk there, or might we see in due course a greater concentration of these new models? How much do you think of there being a problem of concentration of providers up until now and going forward?

Liz Oakes: I will caveat that it is very difficult to comment, given the previous activities I have been involved in. I have never regarded it as being a competition issue. That is partly probably because I have been operating in a global capacity, where there is very effective competition, in the sense that there are other operators out there. There is a long list. I do not necessarily want to specify names here. In specific markets, there is probably also a perception that there is limited competition.

At the end of the day, though, those choices are choices that have been made largely by issuers in the past in the UK. We could easily have had a third scheme in the UK, but, to be open and transparent about it, banks have made choices to close down those schemes in many jurisdictions. Payments are typically a volume game and you need very large volumes to be able to operate a reasonable-sized business to be profitable or efficient.

That has probably got more complicated as the years have gone by, with cybersecurity challenges and technology investments required. For me, the ownership is less of a challenge. The question is about good management and effective controls. That is a theme across many jurisdictions. It is really about how we sort this out, because the ownership of it quite often is not involved in the day-to-day decisions.

Q62 **Danny Kruger:** Let me come on to a more specific issue that is to do with the management of the systems. We have discussed cybersecurity and large-scale threats. Operational errors seem to be a potential risk as well, as you have identified before. Do you think that the increasing complexity and innovation in the market is increasing or decreasing the risk of actual operational errors in the way we manage our financial services?

Liz Oakes: I look at it as almost like peeling an onion. The outer layers are typically where we see tremendous innovation, particularly at a consumer level and the interface with customers. At the core, you have payment systems operating from an RTGS out, from the central bank, clearing and settlement, to the operation of platforms that intermediate between the various market participants. The introduction of new players and participants is a feature of innovation and growth in the economy.

The question then is how we manage those risks appropriately. Things such as open banking, for example, have widened the span of market participants that are involved in this area, some of which understand how to manage risk and some of which are technology providers that are just starting down this path. Having robust measures around that is very important.

Q63 **Danny Kruger:** I suppose I am trying to understand whether the increasing digitalisation and technology involved makes it more or less likely for things to go wrong. Let me ask another specific one, and I think you have identified it in your really helpful answers in the questionnaire. It is about herding and the effect of AI and machine learning on sort of procyclical decision-making that the systems might use. Again perhaps in response to potential risk, there might well be a tendency to bunch together. How serious do you think that risk is and what can be done to mitigate it?

Liz Oakes: I see it probably appearing as a risk in two separate places in my mind. One is in the wholesale markets, where potentially on trading systems you could see that type of activity. Secondly, in the retail market, particularly in the US market, we have seen kids buying shares in GameStop and AMC et cetera based on posts on Reddit.

To the extent to which social media or the use of AI in another context could exacerbate or create a herding trend, in the retail space it is very evident. We are very worried about that. I think that all of us are. In the wholesale markets I think that it is less likely to materialise. I believe also that that is partly because I think we will have to figure out how to license AI models. Ultimately, the end user or the person who has instigated the model is responsible and accountable for the activities of that model.

Q64 **Danny Kruger:** That is right.

Liz Oakes: We will probably figure that out first. Figuring out what to do in the retail side of the market is much more challenging.

Q65 **Danny Kruger:** Yes, where there are human beings making the actual final decisions. That is your anxiety. If we could have systems and machines to do it all—

Liz Oakes: It is where you can influence someone to do something.

Q66 **Danny Kruger:** Let me ask you a very general question about the overall systemic risks to our financial system. How vulnerable is the UK, relative to other countries but also absolutely, to some sort of total system collapse or major systemic threat that properly derails the financial system temporarily or permanently? What keeps you awake at night?

Liz Oakes: Actually, I sleep quite well. I do not worry about a total apocalyptic incident in the UK partly because I have worked for many years in the UK FMI environment and I understand how much hard work and effort goes into that every single day, 24/7.

What we have been through in the last few years demonstrates that, whether that is the pandemic or various other incidents that have happened. In particular, we have had crises where a market participant has failed and we have removed it from the payment system in a very controlled and reasonable fashion with the collaboration of regulators and other market operators.

Q67 **Danny Kruger:** Is that not because of the legacy of analogue systems that effectively have these bulkheads in them? Are you not concerned about the extent to which these new technologies could lead to system-wide danger?

Liz Oakes: No, because I believe that systems now are configured to put stops of some kind and to have risk controls. Certainly, the systems I am familiar with are audit and risk-based control frameworks where you have to evidence that you had permission to do what you said you were going to do, you executed it well and the result was what you thought it was going to be.

In that context, the people involved take extremely seriously that role, those risks and their responsibility to the public, quite frankly.

Q68 **Danny Kruger:** I am glad to hear you are sleeping well because that means that we can too, so thank you. I want to ask a personal question, if you do not mind. When did you last use cash for a transaction?

Liz Oakes: It was a couple of days ago. This is a personal note.

Danny Kruger: Yes, go on. What was it?

Liz Oakes: I went to the Cotswolds. There is no broadband. There is very little phone signal. Nothing works. You pull up in a car park and there is a great big sign that says, "Connect to our wi-fi so you can pay for the car park". I am one of those people who believe in a balanced portfolio of choice for the consumer and for businesses. In many cases, there are many places in the UK where you still need cash.

Q69 **Danny Kruger:** Is it just a technological barrier before we can get to the point where we do not need it? In your questionnaire you also mentioned your concern about financial inclusion. I am thinking particularly around a potential digital pound, a CBDC, and moving beyond cash altogether. I was not sure whether you were saying that CBDC is an answer to the challenge of financial inclusion that we currently have or that it could create challenges. I would be interested to understand what your issue is there.

Is it simply about the barriers to the tech? If we can get that and we can sort out the financial inclusion issue, could CBDC be useful to us, even if it means we have even less or no cash at all in circulation?

Liz Oakes: If I can deconstruct your question, at the beginning you asked whether I think there is a reality in which we do not have cash. We are nowhere near there yet at all. From my own personal experience of working in Sweden, where everyone thought it was going to go cashless many years ago, it still has not happened and it is not going to happen.

Q70 **Danny Kruger:** Are you neutral about that development? Is it simply about what the market wants?

Liz Oakes: I am very neutral about it because I believe in choice and convenience for consumers. In the parlance of technology people, it comes down to use cases. It comes down to what you are trying to do at that moment in time. Is cash the answer? Is something electronic the answer?

Q71 **Danny Kruger:** The use case is determined by the infrastructure. It is not as if the system, which you are now going to be a part of, can be neutral about this because you and Government will be making decisions about what is available to people. Do we need to be deliberate about preserving the option of cash?

Liz Oakes: Yes, I do, at least for the foreseeable future. There is still a significant demand for cash.

Q72 **Danny Kruger:** Very lastly, if I may, just on CBDC, the Bank and the Government have been consulting on this. I understand that you welcomed the steps that have been taken. You have just raised these issues about financial inclusion and the technology. Do you have concerns about the privacy issue and the potential for the system, whatever that is, to have insight into their spending and ultimately potentially to have control over it? Are you concerned about the programmability of a digital pound?

Liz Oakes: I am extremely concerned about people's individual privacy. It is forefront of my mind simply because we do not yet know at this point where our data will end up. If I think back, if someone had posted pictures of my children when they were very small on Facebook or some other social media site, they may still be there 40 or 50 years later. I am pretty sure that my kids will not appreciate it at the time. Sometimes we have to try to think ahead of ourselves. What will that mean for somebody in five or 10 years' time?

From my global work, I am also very conscious that we sometimes take decisions because we believe we operate in a benign democracy. That is not the case for very many people in the world. In the decisions that we take, we need to be mindful of the fact that the situation for other people might not be quite as benign as we anticipate.

Q73 **Danny Kruger:** Will it be possible to introduce a digital pound that preserves individual privacy?

Liz Oakes: Yes, in the same way that we all go shopping right now and get receipts. What do we do with them? Where do we store them? What data and information is currently available on the systems that we currently use?

Q74 **Danny Kruger:** The state does not have that data at the moment. The potential is that it would under a CBDC.

Liz Oakes: I personally do not believe that the state should be carrying the private information of individuals regarding their activities day to day. As I understand it, in the design of the current workings of CBDC in the UK, that would still remain with commercial banks. I am happy with that approach.

Q75 **Chair:** I do not see any of my other colleagues indicating that they want to ask you further questions. I have a few more of my own, if I may. Do you own any cryptocurrencies?

Liz Oakes: No.

Q76 **Chair:** Have you ever owned any cryptocurrencies?

Liz Oakes: No.

Q77 **Chair:** Would you ever own a cryptocurrency?

Liz Oakes: It would be highly unlikely.

Q78 **Chair:** At business school, one of the first things I was taught was that you should never own a significant shareholding in a single company. You mentioned at the beginning of this session that your Mastercard holdings were shares you were hoping to keep for your retirement. Quite apart from the conflict of interest potential of that holding, you are going on to a committee that is looking at the financial risks of the UK economy and you have a massive undiversified financial risk in your retirement planning, if you do not mind me saying. What do you think about that risk?

Liz Oakes: It is something that I have consulted my financial adviser on. I do hold other pension investments. Like anyone else, I had to invest in my pension from the beginning of my career. I do not consider it to be an outsized or disproportionate risk for me, personally.

Q79 **Chair:** What do you think of the Prudential Regulation Authority's proposals in terms of implementing what is known as Basel 3.1?

Liz Oakes: It is something that I plan to look into in far more detail. I have started to understand the small business or SME factor, how it operates and the offsetting against exposures in other countries, for example.

Basel is a very complex set of tools. I am quite heartened by the fact that it exists and we continue to seek international collaboration on the pace at which other countries will adopt similar measures. My primary concern is regulatory arbitrage. If the US goes in a slightly different direction, and the EU and the UK might be in a different position, it would potentially make us less competitive.

Q80 **Chair:** We have published what our views are on that. I am sure you have had a look. In terms of your professional competence for this position and your personal independence, are there any other points that you want to share with the Committee before we move into our private session?

Liz Oakes: I do not believe so. I have been very transparent. I understand how important this is to the Committee and to the Bank. I have set out for the Bank secretary all the information that I could dream up or find. I have also been very transparent with them with other commitments that I have. I do some mentoring as a voluntary activity. They have set out that I should ensure that I am not mentoring anyone in a PRA-regulated firm. We have gone through all of these different items in great length. I am very comfortable that I have satisfied their requirements.

Q81 **Chair:** It also includes your close family members. They look at those as well, do they not?

Liz Oakes: Yes, in great length.

Chair: Thank you very much for your evidence this morning. We are now going to meet in private.