HOUSE OF LORDS

Financial Services Regulation Committee

Uncorrected oral evidence: The FCA and PRA's secondary competitiveness and growth objective

Wednesday 8 January 2025

10 am

Watch the meeting

Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Baroness Donaghy; Lord Eatwell; Lord Grabiner; Lord Hill of Oareford; Lord Hollick; Lord Kestenbaum; Lord Lilley; Baroness Noakes; Lord Sharkey; Lord Smith of Kelvin; Lord Vaux of Harrowden.

Evidence Session No. 25 Heard in Public Questions 292 - 310

Witnesses

I: Sam Woods, Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority (PRA); David Bailey, Executive Director for Prudential Policy at the Prudential Regulation Authority (PRA)

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Examination of witnesses

Sam Woods and David Bailey.

Q292 **The Chair:** Welcome to today's meeting, which is the 14th oral evidence session as part of the committee's inquiry into the FCA and PRA's secondary competitiveness and growth objective. Thank you, Mr Woods and Mr Bailey, for attending.

A list of interests of members relevant to the inquiry is available online; this session is open to the public, is broadcast live and is subsequently accessible via the parliamentary website. A verbatim transcript will be taken of the evidence and will be sent to you a few days after this session to check it for accuracy. It would be helpful if you could advise us of any corrections as quickly as possible. If, after this evidence session, you want to clarify or amplify any points made during your evidence or have any additional points to make, you are welcome to submit supplementary written evidence to us. Do either of you want to make a short opening statement?

Sam Woods: Thank you for having us but no, we are happy to get straight to it.

The Chair: Perhaps I can ask the first question. We understand that a considerable number of reforms that you have taken forward since the introduction of the new competitiveness secondary objective were initiated by the previous Government. What reforms to advance your SCGO do you plan to take forward of your own initiative?

Sam Woods: The ones that I would highlight to you, Chair—and you are right to point to the fact that some of what we do in this space is conjoined with things that Governments are doing—are, first of all, the work we are doing on Basel III.1, which is the latest set of banking regulations, where we have made some very significant changes to our initial proposals in order to support competitiveness and growth; I am happy to come to those if you would like to go into detail. The second one, which is the other major plank, is on Solvency UK, which went live on 1 January this year. There are parts of that which are for Government, particularly around the matching adjustment treatment, but there are many parts of it, such as the cuts to reporting we have made and other elements—which again, I can go into in more detail if you would like—which are at the PRA's own initiative.

I also point to the removal of the bonus cap, the policy that was initiated and executed by the PRA, very much under the guidance of our new objective. Then looking forward, I will be brief but give you a sense in helping to go into which bits you want. The things I would point to are, first of all, we have another proposal we have just made, which we are consulting on in relation to banker pay, which is pretty important for competitiveness. We are proposing a very significant reduction in the length of deferral for bankers' pay, which I think will be useful in terms of our role, particularly as an international financial centre.

We are going to bring forward a proposal, which we have not yet spoken about in public but I thought it would be relevant for the committee to know about it, for something that we call a matching adjustment investment accelerator. Again, I am happy to go into details if you are interested, but it is essentially to deal with the issue that sometimes insurance companies need to invest very rapidly. They need authorisation for certain types of investment, and sometimes there can be a gap between those two things. So the idea is like a sandbox; they should be able to go ahead and come to us later for approval. We will put forward some proposals on that.

We are doing some things in the London market to do with catastrophe bonds and things of that kind that will require some government work but also some work by us. I would also like to do one other thing. We have already cut reporting on the insurance side by a third as part of our Solvency UK reforms. We want to look at what scope there is to reduce the reporting burden on the banks, and again, we will come forward on that this year.

The Chair: Thank you. I think we will cover some of these issues during the course of this session. The Prime Minister wrote to the key UK regulators, I think just before Christmas, asking them to provide proposals to facilitate growth in the UK. Could you share, say, three opportunities or trade-offs which the UK could take advantage of to facilitate growth?

Sam Woods: A number of the ones that I just mentioned would be top of the list for responding to the Prime Minister as well. As you say, he wrote to us on Christmas Eve and I need to respond by 16 January; I was working on the draft yesterday and discussed it with my board yesterday—David was involved in that discussion as well. The one additional point which I thought might be relevant both to the committee and might also be of interest to the Prime Minister—I am not sure—is around the have-regards. We have 25 have-regards, and they naturally fall into clusters. There is a question about whether they could perhaps be simplified and rationalised somewhat. So that is perhaps an additional piece.

The Chair: Could you just give an example?

Sam Woods: We have one cluster, for instance, which I would call the cluster of the climate and environment-related have-regards, of which we have four or five; we have another lot which are around growth and competitiveness; and another lot which are around the financial services agenda of the Government; then there are also some around competition and some around regulatory principles. Each of them individually makes a lot of sense, and I do not think any of us would find any reason to object to them—certainly, I would not—but the effect of having quite so many is to make the policy-making process quite a lot more bureaucratic, and that also makes what we have to publish bureaucratic, and the things that firms have to read more bureaucratic. As I say, I do not think it is

the most important thing, and we have currently worked to those have-regards and are content with them. But if we are looking for an additional thing which was not within the power of the regulator but was within the power of Parliament or Government, that might be another piece.

The Chair: I did a little digging over the Christmas period—which shows what a sad person I am—and I found an interview which you did with the *Evening Standard* six months after your appointment on 20 January 2017. The then chief executive of Aviva was quoted as saying: "The challenge for the PRA will be to balance competitiveness and caution in a post-Brexit world". It goes on: "after Brexit, and with Donald Trump promising to deregulate Wall Street", some financiers say the Bank must allow the City to take more risks to fight the international competition. He then describes you as being "glad the PRA is confined to ensuring and enforcing safety standards, not promoting the City or deregulating to compete with rival financial centres" and quotes you as saying: "The alternative is a very dangerous direction. You can't have your prudential regulator worrying about a race to the bottom with other jurisdictions". It feels like "Groundhog Day". This was eight years ago, the arguments are still the same, and very little progress has been made.

Sam Woods: That is an impressive piece of digging, I must say. From our point of view, there has been a very significant change. That is that for the first time in the PRA's existence, we have been given a new objective. There was actually a slight change to our competition objective earlier in our life but, from a substantive point of view, it is the first time that has happened; that is probably the biggest change for the PRA. So that has led to a very significant change in what we are doing and in the organisation. Of course, the scope to deliver those changes has also been heavily conditioned by Brexit, which has given us much more control over what we are doing. So, I would say, and I will perhaps bring in Mr Bailey as well, that that has been a big change. Certainly, it has been a very big change for me in terms of what is coming across my desk.

In terms of the quote that you gave, I do think we should avoid a race to the bottom but I do not think that that is what Parliament has asked us to do—you can advise me otherwise. The tiering of our objectives, with the primary objectives being on safety and soundness and policyholder protection, and then competition and competitiveness and growth as a secondary, speaks to the fact that financial crises in particular are extremely expensive and very bad for growth. The best research we have suggests that the average cost of a financial crisis is 63% of GDP as a present value. I will finish on this and perhaps you will permit me to see whether Mr Bailey wants to add anything.

But we have just come through a period where regulation, in the financial sector at least, has both been expanding and changing a lot following the global financial crisis, and I have been involved in that all the way along, as has Mr Bailey. I feel that, at least on the prudential side, we are coming out of that phase, so this objective arrives at quite an opportune moment, where we have more control over the rules because of Brexit,

but we can also stand back and say, "We have built up all this machinery over the last 10 or 15 years. Are there some places where it is a bit overcooked? Are there some places where it is a bit overlapping, some places where it is a bit complex, and where if we were making that again with our new objective we would do it differently?" In many cases, the answer to that question will be yes, and that is what we are focused on. But perhaps Mr Bailey would like to come in.

The Chair: Before he does that, I am sorry to press you on this, and of course I completely agree about race to the bottom, but the bit that struck me here is when he says: "Woods insists" that the present regulatory structure "is fine. He is glad the PRA is confined to ensuring and enforcing safety standards, not promoting the City or deregulating to compete with rival financial centres". I think you have changed your mind.

Sam Woods: My objectives were changed, so we had to evolve what we were doing. By the way, as an aside, the way that our objectives were changed by Parliament was extremely sensible, particularly in light of the fact that we were being given a whole set of powers which had previously been under direct political control in the European system. I have always thought that was very reasonable, and it is true that my thinking and my approach have evolved, but I think that is appropriate. If nothing else had changed, you could ask me why, and perhaps I would tell you that I had just changed my mind about it, but actually the facts changed in this case.

David Bailey: I would add just two points, Chair. The first one, just to pick up on that point, is that it is important that we have the ranking of the objectives. The new objective around competitiveness and growth is a secondary one, so we are putting a lot of focus on it, but when we are advancing it, we have to do so in the context of maintaining resilience, safety and soundness, and the two go hand in hand. We get stakeholders coming to us and saying, "Well, the way to enhance competitiveness is to reduce standards", but that is not the approach we are taking and is not something we believe; resilience and competitiveness go hand in hand.

The second point is that we have done an awful lot of work and there has been a really big change in the organisation to embed the new objective throughout the organisation in terms of rolling out training, changing the way we make decisions in our policy-making committees and ensuring that they are furnished with all the information that the committee members need to understand the impact on competitiveness and growth. That has been a really big focus. We had an independent check on that from the Bank's Independent Evaluation Office last year which confirmed that we were making good progress, but there are more things that we are focused on embedding over the coming years.

Q293 **Lord Grabiner:** Good morning, gentlemen. I want to ask you about the involvement, if any, by the PRA in the content of the *FCA Handbook*. As I understand it, the FCA has its handbook while the PRA separately has a

rule book. To what extent, if at all, does the PRA have, or has it had, any involvement in the content of the *FCA Handbook*, either in its original form and/or in relation to suggested amendments from time to time? Does it involve your being consulted by the FCA about the contents of the rule book and then your suggestions are taken into account, or do you have any ability to determine the content of the handbook?

Sam Woods: Thank you, Lord Grabiner, and good morning to you. I will start and again bring in Mr Bailey, as this is very relevant to our policy-making function. The starting point is of course that the FCA is in control of its rules and the PRA is control of its rules, so they are separate and the decision-making rests in line with that. However, there are a number of mechanisms for making sure that co-ordination occurs, and in particular also that consultation occurs. One of those is a very straightforward but quite effective mechanism, which is that the person in my role sits on the FCA board and the chief executive of the FCA sits on the Prudential Regulation Committee. There are also extensive engagement mechanisms between the two organisations, particularly around policy. I would say—perhaps Mr Bailey can correct me if he has a different view—that that tends to be over quite a narrow subset. So, quite a lot of what the FCA does really does not touch on the PRA's remit very much at all, and vice versa. But then there are some things which touch more closely, and then there are some things that we do completely jointly, such as for instance, the critical third parties work that we have been doing. So it is a bit of a varied piece.

One last point and then I will pass to Mr Bailey. The PRA has a right of veto over certain actions by the FCA, but that has never been used. However, it is there, and it will be there for use in a very extreme case where there was some major threat—as I think it would probably have to be—to safety and soundness which for some reason the FCA was not able to take account of in its policy-making and therefore required the veto to be used. But I would be very surprised, given all these other mechanisms, if something ever reached that point.

David Bailey: I will just add a couple of points. The first thing is that we have a formal MoU between the two organisations that we brought on, which is public and which governs the interaction. But actually that is underpinned by extensive engagement between the two organisations, and I see that most in my responsibility from a policy-making perspective within the PRA. There is extensive interaction between the teams and there are a number of policies that we work on jointly—for example, rules on remuneration, or the senior managers regime, which cuts across both our responsibilities—but also, when we are working on our own individual policies, we will be engaging and making sure that they are done in a way which does not cut across the responsibilities of the other regulator. I speak to my counterparts at the FCA regularly, and that is reflected at various levels within the organisation.

Lord Grabiner: So is it fair to say that there is close co-operation between you and a good deal of knowledge on your part about the

content, function and purpose of the *FCA Handbook*?

Sam Woods: That is partially fair—the first half of your statement is fair. But as to whether executives of the PRA maintain a wide and deep understanding of all the bits of the *FCA Handbook*, no, definitely not, because there is a lot of what they are doing that I do not think we need to be across, and the same would be true vice versa.

Lord Grabiner: But in so far as the rules are concerned with concerns about risk, I suppose they would be areas that you would be more interested in.

Sam Woods: That is right. Here is a way of thinking about it. David mentioned some areas where we jointly own bits of the regime—senior managers is an example, and operational resilience is another. So there is very close co-ordination there, and the teams try to take the same things through the committees on both sides. But outside that there is then probably a set of things more like what you are getting at here, which is that if the FCA is working on something which potentially has a very significant potential impact, I would say that I have found FCA colleagues very good at alerting us to those, involving us and consulting us, while retaining the decision-making responsibility at the FCA. But I think that generally works pretty well.

Lord Grabiner: Has what you have just described always been the position while you have been in office, or has it been progressively developing?

Sam Woods: It has certainly been the case throughout my time in office, and I do not think I really detect a trend in it. Maybe I should point you to one other thing, although it is perhaps unhelpful for me and for us here: we ask firms to provide feedback on various aspects of what we do. You have to aim off a bit for the absolute scores they give us, because who knows whether people will give a completely straightforward answer when the regulator comes to them and says, "What do you think about us?" Still, the relative scores between the questions are interesting, as is the movement in the scores through time. It is true that we score a bit lower with firms. We are usually a roughly 70% positive level—versus a sort of more like a 90% positive level on some other questions—when we ask them about how well we co-ordinate with the FCA. That has not been getting worse, but I keep an eye on it and it does suggest to me that there is there is scope for us to keep working on that issue.

Q294 **Lord Eatwell:** I was intrigued by your comment regarding measures that you are taking for speedy investment by insurance companies. This committee has discovered that most of the financial institutions come before us and tell us how much investment they are doing. We have also discovered that this investment is almost entirely in secondary markets while the level of actual financing investment—in other words, really having an impact on British growth—is de minimis. That is rather disturbing because it suggests that we could change regulation, relax

things and make it more conducive to the growth and competitiveness of the financial sector but have no impact on the growth of the UK economy at all.

My first question, and I am sorry if I have overlooked this, is: does the Bank of England have data comparing the real direct investment by financial services sectors as compared with secondary?

Sam Woods: I have seen the discussions you have had in previous sessions on that point, and I agree with you, Lord Eatwell, that it is very important. The part of the competitiveness and growth story that is about the real economy has been very much downplayed in much of the debate in this area, not by this committee but in other discussions. To my knowledge we do not produce that data, but I will check after this hearing and, if we do, I will send it via the clerk to the committee.

I have another point that I think is relevant to your question. We have adopted a way of thinking, which is crude but has been quite helpful to us, about how we affect competitiveness and growth in the context of our objective. We think it is mainly through three channels, the first of which is the one you are talking about: we affect how capital is allocated in the economy, and various things we are doing speak to that. The other two are more about the financial services channels, so we affect how well UK firms can compete and we certainly affect how attractive the UK is as a destination for foreign firms. I mention that because, of those three channels, the first is exactly on the point you are raising.

Lord Eatwell: There are of course some elements of direct investment, such as the Barclays Accelerator and the very small divisions relative to the size of the institutions that attempt to build up direct investment. I was wondering: if one looks at the RWA for financial institutions, would I be right in saying that the weight you would place on direct investment—say, in SMEs or middle-sized companies—would probably be the highest, or high, or one of the highest weights?

Sam Woods: Honestly, it depends on the type of direct investment. You are right that lending to SMEs attracts a higher risk rate than mortgages, for instance, but mortgages are probably not the type of direct investment that you are talking about.

Lord Eatwell: With mortgages, the asset usually exists already anyhow. It is not creating new investment.

Sam Woods: I agree. The tilt goes in that direction, but only in so far as the data available to us about how much money banks are likely to lose from that type of lending supports it. That is the way that we do it.

I am glad you have raised this question. This is one area where in our Basel package we have done something that I feel we can justify in terms of our primary objectives, but that justification is not the strongest; really, we have done it to promote the secondary objective. We have decided to make an adjustment that will effectively reduce the capital

requirement for SMEs relative to what the international standard would require by about a quarter. Looked at in the round, that is okay from a safety and soundness perspective, but it is partly because of this concern.

Lord Eatwell: Generally, would it be overstated to say that the methods of risk weighting are biased against real investment?

Sam Woods: I would not subscribe to that statement, although it would be fair to say that I have not tried to examine our risk-weighting regime specifically with that direct and indirect framework in mind. With regard to the forms of direct lending, of which, as you say, SMEs are, it depends how you view things like leveraged lending and lending into the private equity sphere. Those are also quite significantly risk weighted.

A big part of this is on the insurance side. Some of the biggest pools of money for investment in the economy that we are involved with are those from insurers, particularly insurers that have big annuity businesses where there is long-term capital to deploy; I know the committee has been interested in that. On that side, I do not think it is true that direct investments are particularly penalised, but some direct investments do not have the types of characteristics that allow them to get beneficial regulatory treatments. One of the reforms in the Solvency UK package, which is a government reform that we implemented on 1 January, was to broaden those eligibility criteria. Assets with a construction phase or assets with some sort of prepayment feature can now be brought in as long as the cash flows are highly predictable. So on the insurance side it is less about the brute capital requirement; it is more about what is eligible for the beneficial treatment that some assets can get.

Baroness Noakes: I would like to follow up on one aspect. You described the three channels, which is quite a helpful way of looking at it. Concentrating on the first channel, I do not think there is anything in the metrics set that gives any insight into whether what you are doing is having any impact on investment in the real economy. Can you explain why that is? Alternatively, can you explain how you will measure your success in that channel?

Sam Woods: That is a fair challenge. I am thinking through the metrics in my head and I think I agree with you that there is not one that obviously speaks directly to that. If Mr Bailey can think of one while I am answering the question then he can jump in, but I think you are right. This illustrates a point about the metrics: a lot of thought went into them, there was a lot of discussion with the Treasury and they do a good job of shining a light on many of the things we do that are relevant to competitiveness and growth, but they will always be a bit unsatisfying. What we are all interested in as a bigger-picture point are the sorts of things we are talking about now—the level of investment in the economy, growth in the economy and growth in the financial services sector—and our objective speaks to that. I do not think it would be sensible to give the PRA metrics that would look directly at those things, because we are one small input into all of those. You might also create some incentive

problems. However, that creates a slight gap between the bigger picture and the things that we are capturing with the metrics, and you may have just identified another version of that.

Q295 **Lord Sharkey:** I want to ask a question about metrics, following on from Baroness Noakes. We have heard that the metrics the PRA publishes to measure its performance mark a good start but are not sufficient. For example, there are a lack of international comparisons, and authorisation metrics do not reflect the full time a firm needs to complete an application—two points that have been put to us. Do you agree with that or have any observations about it? However, there is a wider version of the question which we have just touched on, which is: do you think there really are any metrics which can show a causal relationship between what the PRA does and growth and competitiveness, or are we stuck with uncertain proxies?

Sam Woods: Maybe I will offer a couple of comments and then bring in Mr Bailey. It is true that there are some things that we would like to compare ourselves on internationally where we just do not have good international comparators. We were talking about the metrics just a moment ago and about what firms think about us, and as I say, you have got to aim off a bit for the reasons I gave. It would be useful, of course, to be able to compare those internationally, but we have not found decent comparisons for those, so that has been one restraint.

On authorisations, the new stuff we are publishing there is pretty helpful. You have got the upper and the lower quartile across all the things that we do. By the way, it just happens—it is obviously very convenient for me to be able to say this in this hearing—that we are 100% across all of those in terms of meeting our service metrics for the last quarter, but that will not always be the case; you will often have a few cases that go beyond. I think those are quite helpful but I am happy to look again at them if the committee thinks there are some additional things we should bring in there.

On the causal piece, that is more difficult. We have adopted these channels because we find that a helpful yardstick. We can think, "Okay, if we're going to ditch the bonus cap, does that hit one of our channels?" With the first one, frankly, it does not hit it, the second one it hits a bit in terms of UK firms to compete, and with the third one, the attractiveness of UK as a location for foreign businesses—absolutely. But I cannot evidence that, certainly not in an econometric way, probably not even in a quantitative way. So that is a slight weakness, but I am not sure it is one that results from not having thought about it. But perhaps I will bring in Mr Bailey.

David Bailey: I agree that the metrics will never be perfect—it will not tell us everything we want to. Sam has talked about the three channels through which we can impact competitiveness and growth. We also think about three foundations which underpin our work in this area, which are building trust in the UK's resilience, safety and soundness; whether we have effective regulatory processes and engagement; and how

responsive we are to developments in industry and what industry is telling us. Our metrics are structured around those three channels. For example, the authorisations statistics talk to how effective our regulatory processes and engagement are, and the firm feedback survey that Sam talked about talks to how responsive we are to industry, but they cannot cover everything. But we are continuing, as we said in our response to the Independent Evaluation Office report last year, to think about how we might evolve our metrics over time.

Lord Sharkey: I take your point that it is not easy to establish any kind of causal connection, but the difficulty that arises is trying to assess whether the metrics we are using are in fact meaningful. It would be better and we would feel more comfortable, I think, if there were some attempt at establishing causal connections between what you do and the outcomes.

Sam Woods: I accept that point. I would say that the metrics are a useful window into: what is the PRA doing that seems relevant to competitiveness and growth? The other window, and I am afraid it is not a very elegant window but it is a useful one, is: what are the items of things that we are doing and do they appear to be meaningful? You just have to use some judgment about that.

On the causal piece, we will of course keep looking at that. Probably the best way for us to take that forward is through the work we are doing on cost-benefit analysis, in particular, because we now have the committee which Parliament required us to create, and which of course we have been very happy to create, with some heavy-duty expertise about CBA, which we have not had before to quite the same degree. Both on our side, and it is true on the FCA side as well, it is inherently quite difficult to do some of that work in our space—we may come on to it in this session—but that would be the best mechanism for trying to draw those connections.

Having said all that, to go back to Baroness Noakes's question, I accept—perhaps I should not be satisfied with this—that there will always be a gap between how much we can measure, how much we can put into metrics, and the big picture, and we just have to have an eye to both things.

Q296 **Baroness Bowles of Berkhamsted:** I would like to explore something that this inquiry has heard evidence about: the greater cost of compliance in the UK. It has been interesting to hear from non-UK firms with branches or operations in the UK and elsewhere that the cost of compliance here is greater than all the rest of their operations on that—factors of six times higher. How does that come about? In terms of even our domestic industry, the figures they give for the numbers of requests for data or indeed more recently about formal attestations from senior staff are quite staggering. I dread to think what the size of a postbag would be if post was still physical—it would have to be a lorryload every day. So, is that over the top, is all the staffing time involved in dealing

with this sort of volume of information really all needed, and how could you cut that?

Sam Woods: Thanks very much, Baroness Bowles, and good to see you. First, we choose as a matter of economic policy— this is not "we" the PRA but "we" the country, unless I misunderstand our position—to host a very large financial centre in a medium-sized economy, and doing that means that we have to demonstrate that we are serious about good standards, high standards, here in the UK. So I make no apology for the fact that we attempt to implement, and also project the fact that we implement, high standards here. By the way, that is important for financial stability but also ultimately, it is very important for competitiveness. Now, I accept that that argument can be overdone but there is some truth in the point that one of the reasons that large, reputable financial institutions in other countries, and crucially, also their regulators, allow very large operations to exist here in the UK, is that they think we are regulating the market appropriately and that their counterparties are regulated appropriately.

On the intensity of the burden here in the UK, looking at the prudential side, to be honest with you, I think it is a highly contestable claim that what we do is tougher, more intensive and more bureaucratic than what happens in other relevant jurisdictions: you compared us to the EU—obviously you know that very well from your former role—or the US. One simple way to do that would be just to add up how many supervisors there are, for instance, looking at JP Morgan or BNP Paribas, if you add up all of the regulators involved, and how many we have looking at HSBC or Barclays, for instance. I think you will find that we are actually pretty lean on that front. So, if people can bring to us things where clearly what we are doing is totally out of whack, of course we are interested in those, but I am sceptical of the general claim. That is the point.

The last thing is on data and attestations. We are publishing the metrics now much more than we did previously, which is a good thing to show the transparency there. Also, to take that point more dynamically, there are areas where we can rationalise what we have been collecting. As I say, we cut a third on the insurance side. I would not like to invite the committee to think that we could do the same on the banking side, but there must be some scope to do some things there.

Attestations are interesting. That has been coming up more as a question—I have seen it is come up in this committee; I think the chief executive of Nationwide may have raised it, unless I am mistaken. Yes, I was right. I and we are sensitive to that. There is an appropriate role sometimes to ask a senior manager in a firm to attest that something has been done—that is a reasonable thing to ask—but that should be used judiciously. We should also be particularly careful about board attestations. Sometimes it will be sensible to ask a board to attest to something, but that should be used very sparingly.

David Bailey: I will add a small point on attestations. One of the areas where we currently require a significant number of attestations is with respect to outsourcing arrangements. Just before Christmas, we launched

a consultation to remove a lot of the requirement around those attestations, so that will reduce quite a bit of the burden that some of the people who have previously come to give evidence to the committee are currently facing.

Baroness Bowles of Berkhamsted: I accept that the volume of correspondence and other things is probably a bit subjective, but all one can ask is that it is reviewed and published where possible, so that it is the meaty stuff—that it is not, "Ooh, I wonder what the answer to that is" and firing off a request. I will move over to something that we can quantify: the MREL requirements. Several of us on this committee were also working on the Bill. The fact that MREL kicks in at such a much lower level in the UK than in the US and the EU—the 100k level there. Why is that?

Sam Woods: It is very interesting, the EU comparison in particular. I shall come on to that. I should also say that we have seen points made in the committee. Mr Terrington was here and talked about it this in a very thoughtful way; as it happens, I am meeting him with Sir Dave Ramsden, who is in charge of the resolution part of the Bank, tomorrow to discuss these issues again.

Just narrowly on the EU comparison, let me make this point, but do not misunderstand this to mean that I think that there is nothing to discuss here; there are things to discuss. I am slightly nervous about making this point to you in particular, but let me know what you think. It is often stated that it is €100 billion in the EU. If you actually look at the publications of the Single Resolution Board, you will find that national authorities have set MREL requirements for around 70 fewer significant institutions which have an average balance sheet size of €10 billion. It is also the case that between those national authority MREL requirements and the €100 billion, the SRB itself has also set MREL requirements for another lot of firms. We do not know the number, but I do not think it is a small number. So it is a little misleading.

An important caveat: the MREL requirement that it has set will not be the same as the one we have set here—I do not know whether it is tougher or looser. The comparison can sometimes be a bit misleading. However, there is of course a perfectly understandable and legitimate debate around "What's the right level at which we require the reserve parachute to be in place?" The reserve parachute is basically there to stand between losses hitting depositors above the limit, the rest of the industry—which is what happens for the stuff below the limit—or ultimately the taxpayer, which we want to avoid. We—this is not "we" the PRA but "we" the Bank—are currently consulting on moving up those thresholds. I know you had representations from Mr Terrington that that moving up was insufficient and could go further. That is a discussion that I think we should have; we will get responses on that. So that is the change we are making.

We are also making another significant change relevant to the Bill Committee. With the arrival of the new resolution power—which I think will be super-useful, by the way—we have decided that we can deactivate a part of the resolution regime, or stop using its MREL requirements anyway, which is the transfer bit. That is relevant to the other threshold, which is the transactional threshold. One of the thresholds will effectively no longer be an MREL trigger.

Baroness Bowles of Berkhamsted: The issue with MREL is that if the bank is not that big and is not into the kind of market operations that mean that it can access MREL instruments at reasonable rates, it is much more expensive for it than for the larger banks. It is also a big hurdle that some will choose to stay below. It would be very good if you could set down and send back to the committee the reasoning for where it is at and how it may be modified. That would be very helpful so that we could then look at the true comparisons, if you like. It has always seemed ridiculous for something to be brought in at a point that stifles the growth at an important mid-size, or not yet quite mid-size, when it is super-expensive to have to implement that kind of capital—especially when its operation is still unproven. It is a very expensive form of capital to hold if, every time the need to use it comes along, it will actually end up being dodged as well.

Sam Woods: I am very happy to send something over about our current thinking. As I say, we are currently consulting on changes as well, so we will send something over but I will have to liaise with Sir Dave Ramsden about that, as it his part of the shop in the Bank, although I am involved of course. I accept with one caveat what you say about it being more expensive for smaller banks and a big barrier. That is true. I would say though that what it costs smaller banks to do it varies quite a lot by bank. Some banks can actually issue MREL even if they are quite small at a relatively low coupon, and others cannot. That is the market's view on the riskiness of that debt. In the end, I think there is in this area just a conflict or a trade-off about how much we want to shield, first of all, the rest of the financial system, on whom the levy would fall if we had to pay out depositors, and ultimately the taxpayer. There is a bit of a tension between that and how easy we want to make it for smaller firms to grow. We have drawn the line in one place; we are proposing to move it a bit; we will see where we get to in a consultation; but we will always have a bit of that tension.

Q297 **Lord Hill of Oareford:** I have a supplementary, briefly, to Baroness Bowles's first question about relative costs of compliance in different markets. Obviously we heard that you are sceptical about some of the evidence that we received from companies about their experience, saying that they find the UK more costly than other markets. Just linking this to your point about the cost-benefit analysis and the new panel, do you look yourselves at an estimate of what the relative weight of compliance might be compared with other markets? Do you try to hold yourself to account and get to a judgment of where we might sit? If you do not, do you think that we might?

Sam Woods: We do where it is possible to do it. Just to be clear, my comment before was really in relation to prudential regulation. Some of those firms are making a broad comment, and I cannot really speak for the whole waterfront, but for the prudential bit I am happy to defend the comment that I made. Probably the single most important thing we do is to set capital requirements for banks. There are other things we do that are important, but I would argue that that is probably the most important. When we are doing that—I might bring in Mr Bailey as well—we look at how the levels that we are setting compare to what is going on in other jurisdictions, in particular the EU and the US, because I think those are the most relevant from a competitive point of view. You can do it most meaningfully for the large international banks. When we do that, what we always find is that it is about the same for us and the EU, and that will be true after Basel is implemented. The US is a bit but not massively tougher; it is quite a lot tougher, by the way, on the leverage ratio, but on the risk-rated side. When we are bringing in new requirements—and we are doing this much more explicitly with our new objective—we look at the position in other jurisdictions.

I go back to the first question from the Chair: we need to avoid a race to the bottom but, if we are going to be tougher than other jurisdictions, that should be a knowing choice. It should involve consideration of the secondary objective, and we have had to do that a lot in the Basel package. I do not know whether Mr Bailey wants to add anything on that score; perhaps he does not.

David Bailey: I am happy to. I have two points to add. The first thing is that I mentioned earlier that we have built in—embedded—into our processes ways of thinking about the new objective. That particularly counts for the policy committees that we have within the organisation. As part of that, that is exactly where we feed the information in—what are our proposals, and how are they comparing with other major jurisdictions through which international firms will typically operate? That does underpin a number of discussions. For example, when we were making some of the changes to the Basel III package that Sam has already talked about, we were very mindful of how that compared with what was happening in the EU and the US.

The second point I make is that, across both our policy-making and our supervisory functions, we have a lot of engagement with the other major regulators, whether that is the ECB or the Fed board. Through that, we can do a lot of comparison of how both our policies but also our supervisory processes are working, and therefore what they might mean for firms operating in multiple jurisdictions. Can we distil that into a single number to say that the cost of our approach is higher or lower than the US? No, we are not in a position to do that, but it does give us a good sense of whether we are going further or not as far as the other major supervisors.

Lord Hill of Oareford: It is on the supervisory side that we were getting lots of comments, more to do with the number of people that companies

were having to employ and the costs that they were incurring due to compliance with supervisory practice. That was what I had in mind, more than the framework.

Sam Woods: The supervisory bit of it is interesting. As I say, it is a bit difficult to do the comparisons but, when we try to tot up how many supervisors we have for our banks, for instance, or our insurers relative to what they experience in other jurisdictions, we always come up with the answer not just that we are a bit less but that, relative to the US, we are typically a fraction. So, while I understand that people will make that point, I find it hard to square with the evidence.

We are conscious of the need to have a steep rake of proportionality in terms of the number of supervisors for the size of the firm. I am trying to think how to bring it alive for you; I shall give you an example on the insurance side. For a large and complex insurer—say, Aviva—we have a team of eight, and I think they can cover the ground. Looking at what we do for managing agents in the London market who can impact our objectives, although clearly by much less, the average is 0.2—so there is a scale of about 1/40th. That rate is probably not quite as well known as it should be. Sometimes you have to wonder whether we can cover the ground appropriately with 0.2 of a person—but we do.

Lord Hill of Oareford: I think it is more the other way round. They are talking about the number of people they need to employ to comply with what they are being asked, not how many people you have. Do you think there is an issue about the compliance culture in firms that we should be thinking about?

Sam Woods: That is an interesting question that goes to two things. One is that we have gone through a period where we have been strengthening regulation a lot. While we are doing that, I understand that if you are in a firm you want to keep ahead of that, but it is a more dynamic situation and that is more difficult, so you need more people on it—so there is a cost to that strengthening from a process point of view.

Secondly, we have been changing a lot of things. That is partly because we are rationalising and taking out some things that we do not need, and that requires a bit of work. A good example is the reporting cuts in Solvency 2, which we think will cost between £90 million and £170 million for firms to do, but there will then be a £60 million-a-year benefit from that. So there are some costs there, but they should have a good payback.

More generally on the prudential side, both on the strengthening and on the changing, we have come out of that phase into one where we will have a lot more stability. That will allow firms to be a bit leaner and meaner in their compliance functions. It should also speak to a point that I know has come up in a lot of the previous sessions about investment, and I hear this often myself, by the way: firms are frustrated because they want to be able to invest more in things that have commercial

importance but a lot of the pipeline is taken up with regulatory stuff. I hear that a lot. From the prudential side, there will always be some of that because we are inserting the public interest into the private sector, but I expect the weight of that pressure to reduce.

The Chair: You mentioned the evidence that was given by Nationwide. On behalf of the committee, we are grateful that you are following our proceedings so closely. On Baroness Bowles's point, I think I am right that she was talking about all the regulators. You sit on the board of the FCA, as you have pointed out. She said that in one year Nationwide had had 488 meetings in total, 106 of which related to the FCA, and 4,519 letters, of which 1,950 came from the FCA. That seems a tad excessive.

Sam Woods: It is funny that we raise this case. I do not want to get too much into firm specifics but, as it happens, and I confess this was by coincidence, I was with the Nationwide team yesterday and we were talking about those numbers, and they had the same observation.

The Chair: Was that one of those meetings?

Sam Woods: No, not with the Nationwide firm, just our internal team. We were making the same observation that those numbers seem extremely high. I am not aware of a strong complaint from that firm about the level of interaction with the PRA; maybe there is one, or maybe that goes to the point about whether they will really complain to us. Of course there has been particularly intensive interaction with that firm over the last few months because of the very large transaction that it was completing.

The Chair: She made the point that both sets of numbers were very high. That was not particular to the PRA; she was making the point that the volume of material that firms have to deal with adds hugely to their costs and diverts them from what they should be doing, which is running their businesses.

Sam Woods: We try not to interact with firms more than we have to. However, we also get this issue the other way around: people say, "Can't you have more people in order to deal with models and other things?" So it goes in both directions. We are stretched too, and we do not want to be doing stuff that is unimportant. If there are interactions with firms that are not important, obviously we should try to cut those out.

Lord Vaux of Harrowden: I was going to go back to MREL, but I have an observation on your comment that you are less burdensome because you have fewer people. Arguably, that could mean the inverse, because you are pushing more on to the institutions themselves as you have fewer people to deal with it.

On MREL specifically, we have talked about the level at which it cuts in, but one of the comments being made to us is that it is a cliff edge, and it is difficult for a company to grow beyond that cliff edge because the costs suddenly kick in. I wonder to what extent you have thought about how to

make it less of a cliff edge and be able to bring it in more gradually so that it is less of a disincentive to growth.

Sam Woods: I have seen that point made and there is some truth in it. The point of MREL is to allow a reload of the capital base if the firm goes pop, and there is not really a lot of point in only being able to reload half. So you are slightly stuck within the construct of having enough that you can do that reload.

We have tried to manage the cliff edge piece with two measures. One is by giving firms enough forward visibility of when they might come into the MREL regime, and we try to do at least three years. The other is by allowing as long a period as we feel is sensible for a transition once firms have hit the trigger, up to six years. We sit around and make those decisions; obviously it is ultimately up to Sir Dave Ramsden, but we have a resolution committee that looks at those things and we use that flexibility. That is the way in which we have tried to smooth entry into it, but it is not really possible to get away from the basic fact that this is something that switches on, and when it switches on there is a bit of a jump. If there were a way to avoid that which made any sense then we would take it, but I do not think there is.

Q298 **Lord Hollick:** The Government have asked the PRA to allow for "more sensible risk taking". What does that mean? What guidance have they given you to interpret that properly, and how do you interpret it? What do you intend to do? Can you give us particular examples where you intend to take a lower-risk approach in order to enable a greater supply of financial services to the economy?

Sam Woods: That is a difficult question because it goes to the question of risk appetite and where that is held. Is it in the regulator, is it here in Parliament or is it in government and in firms? As you say, the Government have written to us to say they want to encourage more responsible risk taking in support of growth, and we think that is a perfectly sensible thing for the Government to put to us. They have not elaborated on it further, but it is clear from the remit letter that the message is, "We want you to push further on growth and risk taking in response to that".

Some of the things we are doing on our competitive growth objective do not really go to risk—they are more about decluttering things that we did not need—but other things are definitely a risk judgment. I would say that what we are doing on SME finance, infrastructure finance and trade finance are risk judgments. We are putting less capital into the system than we might otherwise have done—actually out of line with international requirements—but to a degree that is tolerable. There, we are taking a kind of informed risk.

Look at the things we are doing on banker pay. The bonus cap is of course politically difficult to do, but we have always said that was bad for our primary objective too, so from a risk point of view we are not concerned about that. Pulling in the deferral period by a lot potentially

introduces a bit more risk in the system, but we think it is a reasonable thing to do. That is how we are we are trying to think about it.

On the question of where risk appetite resides, I know you have heard from other witnesses and I think they are correct to say that the regulators naturally have a fear that in the abstract they will get strong encouragement from the Government, and probably from Parliament, to allow more risk taking, but then, when an actual concrete risk crystallises, the politicians will say, "Well, we didn't mean that risk. Why did you take that risk?" But I think that is just life. You have to try to balance these things.

Lord Hollick: That is indeed life. The blame will shift in that situation, as you describe. How do you work with the Government and the Treasury to look at particular risk assessments?

Sam Woods: That very much depends on where the rules reside. If we go to the Solvency UK example, the matching adjustment piece was a thing that could have been done either by the Government through their powers or by us. In the end, the Government, on that particular bit of Solvency UK, wanted to go further than us, and we said, "Fine, you do that bit and we'll implement it". That is how that bit was done. If you look at other bits of Solvency UK—for instance, what we have done on making it easier for firms to get internal models, having a mobilisation position for insurers, or simplifying the transitional arrangements, which all involve risk judgments—those are clearly with us. It does depend a bit on whether it is something completely within our bailiwick or something that the Government also have a hand in.

Going forward, of course, we are sort of switching off the EU rules that we inherited and replacing them with new UK rules. The logic of FiSMA 2023, which I think was a very sensible piece of legislation, is that more of those risk judgments than previously will be in the regulator. What I have always seen as the logic of the new objective is that, if we are going to move those things from the risk appetite being set with direct political oversight into the regulator, the regulator needs to adjust its thinking a bit to put more weight on things that politicians have been putting weight on before, but without becoming political. That is the shift that we are in the middle of.

Lord Hollick: And you have the freedom to do that?

Sam Woods: Yes, I feel we do have the freedom. They are difficult judgments, of course. I will see if Mr Bailey wants to come in—

Lord Hollick: A particular example has come up in evidence, which is the lack of supply of credit to SMEs in the housebuilding market. This is put down to the fact that there is a very high risk rating and weighting put on that type of lending. What changes could you make to alleviate that problem? The SME market is now 60% funded by private funding, so that points to a dysfunctional market. How do you approach dealing with that, which is obviously a central point of the Government's aim of building 1.5

million houses over the next five years?

Sam Woods: I will bring in Mr Bailey on the SME side more generally, and also the judgments that we have had to make around different types of housing finance.

David Bailey: Sure. That is precisely why Sam talked earlier about some of the changes that we made in our final Basel III.1 package, which was to provide an offset to the removal of a support factor that meant that we retained favourable capital treatment for lending to SMEs and infrastructure. That pushed us away from international standards and away from necessarily what the evidence told us that the risk was specifically.

Q299 **The Chair:** Sorry to interrupt, but it still meant that the overall capital requirement went up, did it not?

David Bailey: No. We are deliberately implementing the support factor in a way that means that the removal of the support factor in our Pillar 1 requirements will not result in an increase of capital for lending to either SMEs or infrastructure. There will not be an increase in capital.

The Chair: It remains exactly the same.

David Bailey: It does.

Lord Hollick: There is going to be no reduction.

Sam Woods: For SME lending, that is right. The intention is that it should be the same. The bigger-picture point, though, is that, for the package as a whole, it is more or less flat. That is the deliberate result.

The Chair: But you are taking the credit for keeping things the same rather than actually advancing the agenda to improve matters, yes?

Sam Woods: Look, it is not a small thing, if you take the SME lending in particular, for the prudential regulator to say, "But we've decided to do it"—you asked a question about whether we feel we have the ability to do it—and "The evidence suggests and the international rules require that the level is here, and we're going to lop a quarter off that because of the particularly important role that SMEs play in the growth economy". I do not think that is a small choice for us to make. Sure, one can argue about it.

Lord Hollick: Who should make that choice?

Sam Woods: That in the end is for you to judge. The framework that you have created is one in which a lot of those choices are put down with us—not all of them, but a lot of them—and you have given us this new objective, which I see as a very important part of the guide for how we should do that. Ultimately, you have to decide whether you are satisfied with the balance that is being struck there. For the moment, I would

argue—of course—that I think that we are doing okay, but that is more for you to judge.

Lord Hollick: In other words, you would look to the Government to give you direct guidance on something like this before you would appear to change it?

Sam Woods: Let me bring in Mr Bailey as well, but the way I would see it is this. We are charged with safety and soundness, and then competitiveness and growth as a secondary objective. When we make rules, we are guided by those, and of course our have-regards as well. On the have-regards we also get—it is one source of them—the remit from the Government and we have to have regard to that in what we do. I think it is quite useful to have that. The Government are going to communicate their thoughts to the PRA and to David and myself through all sorts of channels; that is normal. But it is quite helpful that there is a place where it has to be written down in public: "These are the parts of our economic policy to which we must have regard". To me at least, that is a workable mechanism.

David Bailey: I just add that the exercise of our greater rule-making responsibilities is accompanied by much greater transparency and accountability, including to committees such as this. Therefore we do not exercise them untransparently, and we consult widely with industry on what the impacts are going to be, including through challenge through our new cost-benefit analysis panel so that we can justify that the benefits outweigh the costs.

Sam Woods: Can I just make one more point? An issue that we have is that when we consult, the responses that we get are overwhelmingly, and often exclusively, from the industry. That is quite natural, of course; it is an important stakeholder for us. But we do ultimately aim to serve the public through the framework that Parliament has created for us. Sometimes, I am worried that there is a bit of an imbalance in that we do not have other stakeholders. We have tried to engage as much as we can, but it is quite hard to get that balance into the response that we get. It is different on the FCA side, where there is actually a very active and engaged consumer lobby that always comes from the other side. I know you have just announced that you are going to see some of them next week. There is that bit of an imbalance on our side, and I think we have to be aware of that.

Q300 **Baroness Bowles of Berkhamsted:** As a serial consultation risk holder, I say that it is not always easy to find the time to do them and to break into highly technical things such as the Bank ones. The question I wanted to ask was on the SME point. What was the Bank lobbying for at Basel when the Basel III.1 rules were being formulated over SMEs? Does it mean that you are now doing something that is different from what you lobbied for, or were you always in the camp of and on the side of the SMEs?

Sam Woods: It is fair to say that we have changed our position, and we have done that in the light of our new objective. There is an important technical point here, which is that the legislation under which you gave us the power to make this particular set of Basel rules actually does not have competitiveness and growth as an objective; it has it as a have-regard. But I received good advice that, given that we have now received it as an objective, we can lean extra-hard on that have-regard, if you like, and that would be an appropriate thing to do in forming these rules. Although we changed our position, we did so in an intelligent fashion. We are implementing the Basel rules as they are, and in line with the position we argued for in Basel, which is a Pillar 1 standard, and we are making the adjustment in Pillar 2, which is our own business domestically. The benefit of that—I just think it is a more intelligent way to do it—is that you can meet the Basel standards while making some adjustments of your own. But substantively, our position evolved.

Baroness Bowles of Berkhamsted: But if you were doing Basel III.1 again, would you now go in lobbying for it to be lower—almost everybody doing the same kind of thing? At Basel, the central banks are jerking everything up and then you get back home and are taking it out.

Sam Woods: Well, I am very much hoping not to have to do Basel III again, I can tell you. If we did have to in the far and distant future, we would have to think about that point, yes.

Q301 **Lord Grabiner:** I want to go back to Lord Hollick's point about risk appetite. I will put it quite crudely, and I will be interested in your reaction. From your perspective, would you much prefer that levels of risk appetite were set politically?

Sam Woods: Like Lord Hollick's question, that is a difficult one. I think my role naturally leads me to have a view on it. I think there is a benefit to what Parliament did in FiSMA 2023, which was to push down to non-political, operationally independent regulators quite a lot of the technical work. That is very different from the model in the EU—which Baroness Bowles is obviously very familiar with—but there is a benefit to that, particularly in terms of stability, so that you do not have the same degree of change in the regulatory stance when there is a movement in the composition of the Government. You can see a very clear distinction between us and the US in that regard. I think that is a benefit and that the industry values it within certain tolerances.

There will come times when there is a difference between where the regulator gets to and where the politicians get to or would have got to had they been in control of the item being discussed. I would say that the quite difficult argument we had with the industry over the matching adjustment reforms is a good example of that, and in that case, in the end, the Government took control of it and made the decision. By the way, that was a legitimate way for that issue to be solved. But I would like to think that that should be the exception rather than the rule, because it is very noisy, and, as I say, it risks regulation swinging around

with the political pendulum in a way that I personally think is unhelpful. I do not know whether Mr Bailey wants to offer any reflections as well.

David Bailey: No, I have nothing to add.

Lord Grabiner: But of course it would take an enormous amount of pressure off the regulator if your role were to be satisfied that the government guidelines had been complied with, as opposed to whether or not your guidelines had been complied with. When something goes south, you are in the firing line, which of course makes you inevitably—and understandably—a lot more defensive.

Sam Woods: You are right that life would be a lot easier and simpler if we did not have any of these powers and responsibilities. But I would argue that that is a worse system. I am, of course a prisoner of the system in which I find myself: you are perhaps naturally attracted to what you know. None the less, I argued several years before FiSMA 2023 that we should do something roughly like what you in Parliament ended up deciding to do. So, as a matter of personal conviction. I think it is sensible.

You are right that it puts us in the firing line. But you just have to have an appetite to be in that firing line if you do the sort of role that I and Mr Bailey are doing, and you have to make those judgments, particularly with our new objective in place, around where is the right place to draw that line. We are making those judgments constantly. You will tend to have strong industry pressure to go softer on things at the moment, and I would say that the political wind is also very much in that direction. We need to be mindful of that and respond to it, to the extent that it is consistent with the objectives you have set us. But I do not feel a sense of great discomfort about that, and I do not think the PRC does either. I do not think we think is an impossible thing to do, but it is a challenging thing to do.

Q302 **Lord Lilley:** So far, we have focused on the impact of regulation on existing companies. A distinct issue is the impact on new entrants, both domestic and international. At the risk of caricaturing what we have been told, which may in turn caricature or exaggerate differences in the real world, we are told that in the UK you try to work out what is required of you and, if you have got it wrong, the regulator will tell you that you have got it wrong, but the regulator will not tell you how to get it right in advance. In somewhere like Singapore, however, we are told that there is a concierge system where they come along and say, "Well, this is probably how you should do it, and if you do that, it will get through". First, do you recognise that difference; secondly, have you looked at Singapore and elsewhere; and thirdly, do you recognise that it is the time delays for newcomers that are absolutely crucial, which is a function of complexity even more than cost?

Sam Woods: I recognise that difference, particularly with Singapore. I went out to Singapore shortly before our new objective went live to spend quite a bit of time with the team: there was Ravi Menon, Hern Shin

Ho and Marcus Lim—and if I am not mistaken, Mr Bailey, you also went out last year. We wanted to make sure that we really understood how they did their version of this. I think we have a very good understanding of it, and there are quite a lot of things that we have learned from that and have been able to incorporate into thinking about how we do things.

There are some things which they do which we have decided not to do. One example, for instance, is that they will pay the adviser fees if you want to set up a catastrophe bond in Singapore. I do not think that our levy payers want us to be using their fees in that way, so we have decided not to do that. The other piece which we have not done in quite the same way—but I think it is a subject that can be debated and is in my mind—is your point about the concierge service they have. I have spoken to them about it, but I have also spoken to foreign institutions in Singapore that have been through that process, and it is quite interesting. That is obviously quite different from what we do and quite different from what else is done internationally. On that, the Government have created the Office for Investment, and that is a sort of across-the-economy version of that—or at least that is my understanding of it; I plan to engage with it further. There is an interesting thing to explore: whether there is something we can do together. But I do not know, on new entrants as well—

David Bailey: I am happy to add a few points. We have start-up units in place for both banking and insurance which are there to act as a central point of contact and to support firms who are looking to launch. Since the PRA has been around, we have seen around 40 new banks and 28 new insurers launch in that period. We are also using our new rule-making powers to make sure that we have proportionality in our regulation for smaller and newer firms. A really good example of that is the Strong and Simple regime for smaller, UK-focused banks; we put out some consultation proposals last year on the capital requirements of that, where we are consulting on putting in place a very simplified capital regime for the smaller firms, which will significantly reduce the cost of regulation for those firms and enable them to grow faster and compete more. So it is a case of helping firms through the door but also, when they are through the door, making sure that regulation is as proportionate as it can be while retaining the right level of resilience in their balance sheets.

Sam Woods: There is a distinction here between the new entrant start-up thing, where we have done a lot, as Mr Bailey was saying, and the welcoming of foreign firms that are new to our market thing, where we do a lot of sensible things. But, clearly, what Singapore is doing is one step further over.

Lord Lilley: That is helpful. Do you recognise at all the point, though, which certainly seems to be true in the tax system but I think is true in many of our state regulators, that they will not give you prior advice as to what to do: you have to do something and then you find out whether it is right or wrong? The second thing is, do you recognise, particularly

considering what sounds like the rather good work you are doing for small start-ups and so on, that it is important that the premium is on time? If you are a new business and you have to wait a month for a decision, that is life or death.

Sam Woods: I recognise your first point, but we are not a consulting service—we are not set up in that way. There is a limit to the extent to which we, who are, as it were, the markers of the exam paper, should go in prior and say, "This is exactly how you fill it in so that we will say yes". You would potentially get some difficulties working in that way. Having said that, we are doing more of that in some areas. One area in particular is with internal models on the banking side. We have an example of that where there is a bit of a dance of the seven veils, in that firms are finding it very difficult to work out what is the version of a model that will get through the PRA's approval process. I think our approval processes should be tough because, once we approve a model, the firm sets its own capital requirement.

However, that is an area where we decided there was too much of what you are describing so, only within the last year or so, we have set up new mechanisms. We have worked with UK Finance on round tables to get people in to say, "If you're coming to us for an approval, these are the kinds of things that work and the kinds of things that don't", and that has been quite useful. The question for us is whether that might be replicable in some other parts of what we do.

Lord Lilley: What about the time point regarding start-ups and new entrants?

David Bailey: We absolutely recognise it. That is why we provide all the services that we do and make the information available so that firms can engage with us. Where firms come to us with complete applications, obviously we process them as fast as we can. Then there are certain other areas where we have put in place expedited authorisation procedures. For example, we announced in a consultation in December advanced authorisation procedures for certain types of insurance special purpose vehicles, for which we would expedite the authorisation process significantly. So I recognise exactly the point you make.

Sam Woods: That will be a 10-day turnaround, which we think is pretty competitive. So clearly there are things that we can look at in that regard.

Q303 **Lord Vaux of Harrowden:** You made a comment in your first answer to Lord Lilley that slightly troubled me. You said you did not think your levy payers would like the money to be spent in that way. There is an argument that higher levels of regulation make it more difficult for new entrants and disruptors to enter the market. I just want to be clear that you are not actually listening to the levy payers as to how you spend money. because your larger levy payers may be saying, "Don't spend it on attracting new entrants into the market".

Sam Woods: That is a fair criticism. It may not be a good judgment on our part, but to date we have never directly spent levy payers' funds—which are public funds—on often very high advisory fees for new entities. Maybe that is something we should do, but I am not convinced about it.

Lord Vaux of Harrowden: My question was not specifically on that. It was about the wider point that your larger levy payers may be saying, "Stop doing anything to attract new entrants". If you are listening to them as to how you spend your money, is there not a conflict there?

Sam Woods: There is a potential conflict there, but we are very alive to it. On new entrants in particular, specifically on banking start-ups, David gave you the number: we have authorised 40 new banking start-ups in the UK under the PRA. That is streets ahead of what most other regulators have done, so we have a very good story to tell there. The more tricky story is about how successful they are once they have started and how well they grow. It is not infrequent for us to have representations from incumbents that certain small firms are doing terrible things. That is all part of what happens; you just need to be alive to that.

It is also relevant to this hearing in the sense that there is no way in which we would be giving you that number today of 40 UK bank start-ups authorised by the PRA if we did not have a competition objective. That is one of the clearest things I can point to and say, "We had a new secondary objective, so we did this". There is strong causality there.

Q304 **Lord Kestenbaum:** I want to take you back to first principles and try to understand in practical terms how you have set about implementing the second objective, particularly in terms of the relationship between the two objectives. I am teasing you slightly in saying that I could not help but notice the intonation when you spoke right at the beginning, Mr Bailey, and said "It is the secondary objective"—I am teasing you—"in so far as it is secondary and there is a primary objective and that represents the main focus of our attention. As and when we turn our mind to the secondary objective, we will do so with integrity and absolute conviction, but it is secondary".

Of course, the alternative is that one would say, as you said about implementing this objective, "No, these are two utterly complementary objectives and there is a seamless integration between the two. It won't require of us any meaningful adjustment to how we set about our business. It won't require of us any meaningful changes to the types of people we hire, the way we incentivise them and how we think about rewarding or sanctioning. The way in which over all those decades we as regulators have set about being the supervisor, the manager and ultimately the reducer of risk, will, broadly speaking, make no meaningful difference to how we run our business in terms of driving competitiveness and growth". I am of course caricaturing it a bit but, if you feel it is more the latter than the former, I would love your explanation, while if you feel that that is not true and there are significant trade-offs and significant rebalancing that we will have to do, I would like to know in very practical

terms how you have set about that rebalancing, in incentives, in recruitment or in parting company with people who just cannot meet this objective in talent and skills.

David Bailey: That is a very good question. The secondary objective has resulted in a significant change in the way that we are thinking, developing policy and exercising our general functions within the PRA. One of the immediate steps we took was to form a centre of expertise and recruit specific expertise to advise us on competitiveness and growth, and that included adding a new senior adviser to advise on that. We are also in the process of setting up a network of external researchers to advise us on competitiveness and growth. Using that centre of expertise, we have rolled out training across the organisation so that, as we are exercising our policy-making functions, consideration around competitiveness and growth is fully embedded in every discussion that we have.

You quite rightly raised the fact that I stressed that the objective is secondary. That was a clear and deliberate choice by Parliament in giving us the objectives: we have to consider competitiveness and growth in the context of our primary objective. When we think about any policy, we are thinking about what the impact will be on safety and soundness. Alongside that, we are thinking, in delivering that safety and soundness, about how we can advance both competition between firms, which was the secondary objective we already had, and competitiveness and growth.

I would not want you to think we have not changed what we do inside the PRA. The discussions that we are having within the teams and the way in which papers and decisions are presented to the policy committees have changed very significantly. They have changed with expert input that we have sourced externally and continue to source, in terms of our own employees and external advisers. That is driving some of the initiatives that Sam has already outlined. The independent cost-benefit analysis panel that we put in place is there to challenge, develop and enhance the way that we think about the costs and benefits of our proposals, including from a competitiveness and growth perspective. I do not know whether Mr Woods would like to add anything.

Sam Woods: I will add a couple of comments. Your question goes to the heart of the change that we are trying to make in the PRA, which we are quite well advanced in. One simple answer is that a lot of what we have been talking about today is stuff that we would not have done without our new objective; I can tell you that is the case. Some of it involves a trade-off, while some of it is not so much of a trade-off but would not have made it to the top of the pile.

There is a specific point here that I think is relevant to your question, and it is something I have had to look into more carefully to make sure that I understand it. Our advice is that, because of the tiering of the objectives

that Mr Bailey described, we cannot take actions in relation to our general functions that do not advance our primary objectives.

This goes to the question, what does "advance" mean? You might think, and indeed perhaps a colloquial interpretation would be, "Okay, that means we cannot do anything unless it makes regulation tougher". That is how you might understand that. That, of course, is not what it means. It means that things that we are doing must pertain also to our primary objectives, but we do not, when we are taking steps, have to advance the primary objectives by more than the pre-existing position. This is something that the Independent Evaluation Office put its finger on. It is quite important to get that point understood so that people understand that, although everything we do has to advance the primary objective, it does not mean that it has to do it more than we had done previously. That clarification s super-important for the point that you just made.

Q305 **Lord Eatwell:** I want to come to the issue of cost-benefit analysis, which you cited several times—particularly Mr Bailey—as part of the development of the relationship between the various objectives. I am rather puzzled about this. You are a prudential regulator, and we started off by saying what the cost of a financial crisis really is. Suppose that we were going to change the risk weights in calculating RWA. We could see the cost to business, but the benefit would be a change in systemic risk, and that is impossible to measure. Therefore, the cost-benefit analysis is impossible to do. I am very concerned about a lot of weight being put on this cost-benefit analysis, which is going into a field where the econometrics is almost impossible. There are some people working on catastrophe modelling to see whether they can adapt it within cost-benefit analysis, but the analysis—the framework of econometric analysis—does not exist.

David Bailey: You are quite right that this is a complex area. When we are developing our cost-benefit analysis, we think about it in three different areas: what is the impact of any changes we are proposing on individual firms collectively; what might that mean for the markets that they operate in—that is, will it result in more or fewer services being offered to their customers, or different services being offered to their customers; and what will be the overall impact on macroeconomic output? You are quite right that analysing the direct costs to firms—the first of those points—is vanishingly easy. We ask the firms and often they tell us that it is going to be very expensive. But the others are harder. That is why we have been developing our approach and why we cannot necessarily present a quantitative CBA for every single policy that we advance.

Lord Eatwell: Are you going to publish your modelling in that respect?

David Bailey: Just before Christmas we published our *Statement of Policy on Cost Benefit Analyses*, which sets out how we approach cost-benefit analysis. That has been informed by input from the new panel, which has been up and operating only since the middle of last year. In fact, it inherited quite a heavy workload, because we had had to delay

some publications because of the general election and those consultations had to go through the panel. It has already reviewed eight cost-benefit analyses in its first few months of operation and advised on our statement of policy.

So, we have set out how we think about things and we will quantify things where we can, but we also use causal-chain analysis to think through the impact on the three different levels that I described, and we have set all that out. But we know we have more to do to develop our approach. One of the things we will be working on with the new panel, and with its critical and expert input, will be developing that process, so we are continuing to talk about that.

Q306 **Baroness Noakes:** I want to shift on to the impact of the secondary growth objective on supervision. We have certainly heard from some firms that they think that the secondary objective ought to be impacting on supervision—that is, the interaction that they have with your supervisors—in the sense of recognising that the firms are part of delivering growth in the economy. The committee is of course aware of the legal structure of the competitive growth objective that applies to your general duties. Nevertheless, there seems to be an issue, which was identified in your Independent Evaluation Office's report earlier last year. But then in November, the Chancellor sent a letter to the governor with recommendations for the PRC, where she says that the competitiveness and growth objective should be extended to your approach to supervision and the experience of firms in their interactions with the PRA. So, I was hoping you would tell me what you will be doing differently as a result of the Chancellor's letter.

Sam Woods: I have seen that this has come up at least twice in your earlier hearings. It is a very important point. The way that we have understood the law to apply in this area is, as you say, that the secondary objective attaches to the general functions of the PRA. So, what are the general functions? The general functions are certainly rule-making. They are also our general approach to things. We believe—I think this is the right interpretation—that the secondary objective does attach to our overall approach to supervision but does not attach to individual, firm-specific decisions that supervisors are taking. So that is the way that we have implemented it.

You are right that the IEO also touched on this point and recommended, which we are in the course of doing, that we roll out the training that we had already done—or rather, a different version of it—for everybody in David's area, who were the policymakers, to supervision and authorisations. That training has been prepared and is in the process of being rolled out—it is actually quite far advanced as we are here. That is important; it is important that people understand that. But you can see that we have to walk a bit of a line in making this change within the PRA, because this reasonably subtle distinction between our general approach to supervision—which would be relevant to, for instance, what staffing we have on different types of firms, what level of intensity we have and all

that—is distinct from individual decisions that line supervisors are taking. It is important that we make that distinction clear to our team, and I think we are doing so.

Baroness Noakes: On the individual decisions, I understand the difference, but I think the firms' point is that the supervisors are not coming with an understanding that they are part of delivering growth in the economy, and therefore it is important for the way your supervisors interact. That is why I was asking what firms will find different in the light of the Chancellor's letter.

David Bailey: There are two things. I think we were doing them anyway, but the Chancellor's letter reinforces the point. As Sam said, we are rolling out an updated version of the training to supervisors so they have a greater understanding of how we are applying the new objective. The other point that the IEO raised was around us harnessing intelligence that is gathered through supervisory discussions. Through that training we are arming the supervisors to have a more informed discussion with firms. We have also set up enhanced channels and networks within the PRA, so that when supervisors have a discussion and a firm talks about something that has a competitiveness and growth implication, that can find its way back to our centre of expertise, and we can build that into our thinking around which areas we are going to target from a policymaking perspective.

Baroness Noakes: Do you think the firms will notice any difference?

David Bailey: My view is that the firms will, over time, recognise that they are having more informed discussions with their supervisors.

Sam Woods: I think so. The proof of the pudding will be in the eating. We are 16 months into our new objective and I think we have hit it hardest and fastest on the policymaking side. The IEO called us out a bit on the supervisory dimension and we are doing more on that, so that is a bit later in the piece. But we need to hold this line; I do not think it would serve us well or that it would be in line with what Parliament has asked us to do if individual supervisors started to become confused about this point and thought, "We should approve this model or this person even though it is not quite good enough, because we have got a competitiveness and growth objective". So it is actually a bit nuanced.

Q307 **Lord Vaux of Harrowden:** The comment we have had is that the new objectives seem to be fairly well embedded at the top of both the PRA and the FCA, but perhaps less so further down, so I am quite reassured to hear what you have just said about empowering the supervisors to come back. The test of whether that is successful is whether they have been coming back with comments and ideas about the impacts. Are there any examples of where that is happened?

David Bailey: It is early days. As I said, we are still rolling out the training and we have put the networks in place. There is probably not a public example of a policy we have implemented directly on the back of

specific feedback that has come through firms over the last few months, but we are getting useful feedback around the challenges that firms are facing, which we are building into our thinking.

Sam Woods: One important dimension of this is the timeliness of what we do. We have talked about it before; it is the level of focus that we have now on the timeliness of our authorisations and procedures, as well as on turnaround and things that come in from firms. One could perhaps argue that it should always have been as high as it is now, but I can tell you that it is higher. That is one area where there is a more general approach and where firms will, I think, notice a difference.

Lord Vaux of Harrowden: You mentioned earlier that you were hitting 100% targets. That says to me that the targets are too easy. Do you change them?

David Bailey: We have not always hit them.

Sam Woods: I really do not think that we will always be at 100%, because there will be some cases where you need the supervisors to take a bit longer, perhaps on something very controversial or difficult. But it should be in the high 90s.

Q308 **Lord Hill of Oareford:** Can we talk a bit about speed and pace? We have touched on them in different ways. Right at the beginning, you, Mr Woods, mentioned some of the things you wanted to do this year and flagged up some of the areas where you thought there was scope for making progress. Can you give us a more precise idea of what some of those timescales might be? If not now, can you write to us?

Also, do you feel that you are adequately resourced? If we need to change the way you do things and make some of the cultural changes that Mr Bailey has talked about, are you sufficiently resourced to be able to make the changes you want to make fast enough—particularly if we think about the likely impact of the changes in America and in the American approaches to regulation, which I think are going to transform the competitive landscape in which the UK will operate? Instead of our earlier conversation about whether you are demanding too much of other people, are you able to move as fast as you would like to move?

Sam Woods: Perhaps Mr Bailey could speak a bit to the timing of some of the policy packages that we have going through over the next year or so. I can then add a word on resources.

David Bailey: Obviously, we set out when we will deliver policy consultations publicly in the regulatory initiatives grid, which gives that advice. Sam has talked about a number of the initiatives that we have already delivered. We are consulting on our updated remuneration rules; we aim to then turn those into final rules as soon as we can over the course of the year. We will consult in due course—and when I say "in due course", I mean in the first half of the year—on the amendments to the

senior managers regime. As Sam talked about, Solvency II was already implemented as of 1 January.

Then we are proceeding with our work on the banking packages, Basel III and Strong and Simple. All of those are set out in our regulatory initiatives grid. We aim to get the next version of that out—the process was slightly disrupted by the election last year; we were not able to publish a full one in the second half of last year because we were still revising timelines in the light of the election and the implications of that—over the course of March or April.

Sam Woods: Let me just give you a sense of our resources. The PRA has 1,582 FTE; that is what is in our budget. I think that we can cover our waterfront very well with that. It is always possible—indeed, this happens frequently—that there will be demand, as in all other organisations, for more. There are more things that we could do faster.

We are also going into particularly tight budget this year because we need to make a bit more space for some investment in obsolescence in the Bank of England's systems. For instance, in his area, David is pulling down the staffing a bit to reflect the fact that we have had some very big pieces of work go through, but also because there was a sort of hump coming in around FiSMA 2023 where we can probably find some efficiencies going forward.

By the way, I often get this question from staff in the PRA. The way the question often comes up is firms telling us that they would be happy to pay for more for the PRA and asking why we are being tight on the budget. This is an area of judgment. My response to that is, "Firms pay it directly but, ultimately, anybody who uses a bank or insurance company in UK pays for us". We are the husband of public resources in that sense, and we need to keep good control of our resources. I am not sure whether we always get that judgment right, but we can certainly deliver everything that we have talked about today with what we have.

Lord Hill of Oareford: So you do not think that there is any constraint on your reform agenda, in terms of training staff and changing attitudes and culture, from a budgetary point of view?

David Bailey: Exactly. We have the resources in place to deliver what we committed to do in our response to the IEO. That is happening right now.

Q309 **Lord Vaux of Harrowden:** Following on from that, it is not just a question of numbers of staff; it is also a question of the knowledge and expertise of staff. There have been criticisms in evidence about the level of understanding of specific sectors. Do you feel that you have those levels of expertise throughout the organisation? Are there any particular gaps you think you need to work on? The other suggestion that has been made is around whether it makes sense to bring in secondees from industry, et cetera. I am interested to hear your views on that.

Sam Woods: I feel that we have a good level of expertise in the organisation. It is something that we are always looking at. Yesterday, I looked again at our quarterly stats; one tracks those quite carefully. What I would say is that, from a pay and rations point of view, the PRA is part of the Bank of England. It is true that the particular way in which the Bank of England pays its staff is more strongly commensurate with bringing staff in at the beginning of their career and training them up than with bringing people in later on. We do both, but I would say that, relative to the FSA, that mix has moved a bit. I do not think that it has in any sense been a problem for the PRA; nor is it a reduction. It is a slight shift in how the PRA is staffed relative to how its, if you like, ancestor organisation was staffed.

In terms of expertise specifically from the industry, we bring in quite a lot of people from the industry. I have always thought that the right staffing model for the PRA is to have some people who are having a public sector career, all of which may be spent in regulation, and some people who are having a career—usually either an insurance career or a banking career—part of which they want to spend in the regulator. I do think that you need both to make it work well. If you had all the former, that would be bad; if you had all the latter, that would also be bad. Of course, it is not feasible to raise this point, but, if you look at the history of regulatory failures, many are the result of excessive industry capture. That is not the mood of the moment, as I say, but I need to be alive to that and I think the committee should be as well.

On secondments, we are always in the market for those. The firms have my number. We have had many brilliant people come and work for us over time. The only thing I would point out, which is not often mentioned, is that conflict management is quite tricky. If we get in someone from HSBC, they should not be working on the Barclays supervision team, obviously, but can they also work on the Pillar 2 policy or on stress testing? It is not quite as easy as it would appear but, none the less, we have made it work. We have also had quite a lot of success the other way, where we have sent out senior people to go and spend a bit of time in firms and then come back in. That is also very helpful.

Lord Vaux of Harrowden: The model that has been talked about is the takeover panel and the way that works.

Sam Woods: Of course, we also—perhaps you, David, could come in on this point—have very important external expertise on our panels and our board.

David Bailey: I was going to say that we have a practitioner panel and an insurance practitioner panel, for example. We also have in the PRA a team of senior advisers who typically have industry expertise at senior levels; they input into both our supervisory and policy-making processes. So it is not just about having expertise within the staff; we have other mechanisms to get expert input into our proposals. The CBA panel is another example of that in a very specific area, I guess.

Sam Woods: Mr Bailey is too polite to mention this, but he is an interesting example. He spent nine years at JP Morgan, including a lot as a derivatives trader. Among the senior team in the PRA, about half have some kind of private sector experience.

Lord Vaux of Harrowden: The other comment that has been made—it is perhaps more relevant to the FCA than the PRA—is about the lack of continuity, in that you have too much staff turnover and people keep having to educate their supervisors each year, time after time. How are your staff turnover levels and so on?

Sam Woods: Currently they are at the lowest level they have ever been. The last annualised stat I have is 4.7%. I would like that to be slightly higher.

Lord Vaux of Harrowden: It is a bit low, actually.

Sam Woods: It is very low. I have been wondering why it is the lowest it has ever been in the history of the PRA and, much as I would like to attribute it to some development in the leadership of the organisation, it is probably a reflection of the market. The consulting firms in particular are not hiring much at the moment, and I suspect that is what is driving it. To make a more substantive point, this question of whether on an enduring basis we have the right pay structure to bring in the right people from the market is something that the PRA within the Bank of England has to be very alive to. That is a topic that I want to keep focusing on.

David Bailey: You mentioned re-educating supervisors. We need the supervisors to turn over on individual firms. We do not need that on a frequent basis, but they need to turn over after some time to prevent them getting too close and to make sure that there is appropriate independence, challenge and fresh thinking.

Q310 **Baroness Donaghy:** I am pursuing the issue of culture. Your answer to Lord Lilley's questions was a good story, particularly with the start-ups and the changes in the organisation that you have made, but you were very firm, Sam, when you said, "We're not a consultancy service". I am asking about the balance between process and facilitation. It is a constant theme that we have heard in both public sessions and private meetings that the facilitation element is not strong enough. One company described it as a "valley of death", particularly for mid-range companies, because there was not that kind of organisation. To be fair, this was a particular criticism of the FCA, not the PRA, but it is about whether the organisation of the regulator is geared to those medium-range companies. While you are answering, it would be good if you could say something about the comment that that there should be less stringent supervision for senior managers in companies with a strong track record of risk management and a good reputation. Could there be more flexibility in the processing of those cases?

Sam Woods: I accept the point that for medium-sized firms it can sometimes be difficult to navigate the regulatory environment. It is sometimes a result of things that we have done to encourage more entry. Mr Bailey referred to our Strong and Simple regime, which is already in place for liquidity and reporting, and which we want to put in place for capital as well. There is a bit of a trade-off: if you create a simpler thing for the little firms, at some point you have to graduate to the full question about where that barrier is and how easy it is to do. However, I accept that, particularly for medium-sized firms that want to grow—we were touching on MREL before, which is the other classic in this case—that is an extra challenge, but it is not there unthinkingly or because the same outcome could be achieved in a different way. It is the result of the fact that, as firms get bigger and become more important, we think they need to face somewhat tougher regulation.

On the question about established managers, we have to be a bit careful. We should not have a system where someone known to us gets a pass. That might sound a bit "jobs for the boys", which would obviously be totally inappropriate. However, as a practical matter, if we have someone applying for a role with whom we already have a lot of experience, often we will choose not to interview them because we will say, "Fine, we're not going to get anything more from them than we know already". That is how we try to bring some proportionality into that piece.

We are not quite ready on this yet, but we are working on whether there might be some ways within the senior managers regime to have a faster mechanism for some approvals—a fast track, if you like. Again, we need to be very careful to avoid any sense of insiders and outsiders, but there might be something we can do there as well.

The Chair: We have been going for two hours. As usual, Mr Woods, you have been very impressive in dealing with our questions frankly and openly, and we very much appreciate that. To Mr Bailey, too, this has been a helpful session and we are grateful to you. There are one or two things that you have been asked if you could follow up on, and we appreciate that there is a big agenda.

I have one last question, related not to this inquiry but to a parallel inquiry that we are engaged in on enforcement. You are on the board of the FCA. I want to be clear in my mind why the PRA has taken the view that it would not be appropriate to announce enforcement investigations in advance but the FCA is taking a different view. As you are in both positions, it would be helpful if you could help me to understand that.

Sam Woods: Thank you for your kind comment, Chair. I thank members for their extensive set of questions and, by the way, for their interest in this topic. As you mentioned, we are actually following these hearings closely because it is interesting to us to see how these issues are being debated and how Parliament is thinking about them.

On enforcement, it is partly just a question of volume. The PRA has opened 76 enforcement investigations in the 10 years that we have been in operation, eight of them last year. I do not carry the FCA number in my head but it will be a multiple of that that is an order of magnitude different. So it is natural that the FCA would sometimes think in a different way about some of what it does. I need to leave but I think Nicola and Ashley are both talking to you directly about that policy, but the FCA has a particular issue, which we have to a lesser degree: what do you do when you are investigating a company that is in the market, taking consumers' life savings, and you have not quite got to the point that you can land the enforcement but you are seriously concerned that people are putting their life savings into it?

The Chair: As you know, they can deal with that.

Sam Woods: But that is the motivation for the question at the FCA, which does not arise in quite the same way for us.

The Chair: It has been presented as being about transparency and openness.

Sam Woods: I will leave the executive and chair of the FCA to answer that point.

The Chair: Skilful as always. Thank you very much.