House of Commons

Treasury Committee

Oral evidence: The appointment of David Soanes to the Prudential Regulation Committee, HC 776

Tuesday 11 March 2025

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; John Grady; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 1 - 35

Witness

I: David Soanes, Appointed External Member, Prudential Regulation Committee, Bank of England.

Examination of witness

Witness: David Soanes.

Q1 **Chair:** Welcome back to the Treasury Committee on Tuesday 11 March. We are continuing our confirmatory hearings into newly recommended members of the Prudential Regulation Committee. I am delighted to welcome David Soanes, who is appointed as an external member. His appointment is made by the Chancellor of the Exchequer directly and is for three years. We are very keen to hear from you today, Mr Soanes. I should stress that we do not have a power of veto over the appointment, but, nevertheless, we are keen to hear what you would like to say in public. You had the questionnaire. Did you fill it in yourself?

David Soanes: I did fill in the questionnaire myself.

Q2 **Chair:** Did you share that with anyone?

David Soanes: I shared it with the parliamentary affairs people at the Bank.

Q3 **Chair:** Did anything change after you shared it with them?

David Soanes: There were a few nudges, but it is virtually all my own work.

Q4 **Chair:** Perhaps we will pick up on what nudges. Were there any nudges of significance?

David Soanes: They pointed me in the direction of information I had not really picked up on, on the AI response of the Bank and the PRA, so I expanded my answer to that AI section.

Chair: Thank you very much indeed for your candour.

Q5 **Dame Harriett Baldwin:** You are very much a poacher turned gamekeeper, are you not? I wanted to drill into your conflict of interest, because you still retain some UBS exposure. I am not going to pry and ask you how much that is or anything like that. I understand that these things are locked up for a period. Can you share with the Committee what percentage of your overall net worth you feel is now tied up with the health of UBS?

David Soanes: Thank you for the question. Currently, it might be 10%, but by the time I start on 20 March I expect that none of that will be equity risk. I should give a bit of background. My last bonus from UBS was in 2022. It has eight-year deferral, so I will continue to receive payments from UBS until March 2030. The bonus was structured in a way of equity and bonds, and this is to comply with the regulatory agreements of the PRA. UBS has engaged with the Bank of England, through me, to convert that equity—not to accelerate it—into very junior bonds, so that they will vest at the same time but I no longer have any equity exposure.

In the run-up to this hearing, and indeed this morning, I sold my very last UBS shares that I currently own. I have sold all of my UBS additional tier 1 bonds. In the run-up to this, I have sold all of my single exposures to banks and insurance companies and any bonds that I hold. I hold some structured bonds, which I cannot sell, but they are slated to roll off and be no longer invested in financial institutions once that happens. I have really tried to draw a line in the sand between my past life and this new life.

Q6 **Dame Harriett Baldwin:** I was also interested to see that you divested yourself of your cryptocurrency holdings. Was that bitcoin or something else? Tell us about why you were in the cryptocurrency markets.

David Soanes: I did not have to sell my cryptocurrency holdings. I chose to, having talked about it with the deputy secretary of the Bank, because it felt to me that it was inconsistent with the increased number of discussions around digital assets. I treat them as securities—I think that it is an appropriate way to treat them—and therefore I would have to disclose them. I did not trade them actively, but they are actively traded, if you see what I mean.

I held bitcoin and two other coins. The reason I held them was that I did not like not holding them when they were going up. I did not ascribe a whole lot of intrinsic value to them. It also made me engage with the subject and I started engaging with this back in 2015. There are two very distinct things going on here in the crypto world. There is the very speculative store of value world and there is actual real technological advancement in settlement across a distributed ledger technology. You can look at certain coins now—I will not mention them—where there is genuinely very substantial revenue and very substantial revenue growth as these coins settle transactions across them. They are two totally separate worlds.

Q7 **Dame Harriett Baldwin:** Do you think that the Bank of England should issue its Britcoin?

David Soanes: I am not sure that that is a subject for the PRC. From a private perspective, I would rather be gathering the value of a stablecoin from my own central bank than having private companies take the value of a stablecoin, because of course the stablecoin has no yield. If I can get folk to own my coin and I pay them nothing for that, it is better than having to pay them some interest on a bank account. There is great value in being the issuer of a stablecoin. I recognise that there is a lot of work going on behind the scenes at the Bank of England. I am not familiar with it all, but I would have thought that stablecoin issuance by central banks is going to happen.

Q8 **John Grady:** Thank you very much, Mr Soanes. You have had a very long financial services career and that is the experience you will bring to bear in this new role. I guess that people might ask how you will feel, pushing back against the lobbying of your former colleagues.

David Soanes: It is a good question. I do not arrive here feeling in any way negative about my former colleagues. I had a 30-year career and one reason I had it was that I worked with very good people in a terrific firm. I respect them and appreciate their culture very much. I dealt with clients. I agree: I come into this with a positive view on the industry and the people who work in the industry, across insurance and banking.

However, I have in the past been on the other side of the table. I advised Government during the 2008 financial crisis. I had to sit in a room with the eight CEOs of the major banks at the time and have it out about what was going to happen and the emergency at hand. If you do that in the right way, you can have a respectful but also contentious relationship. That may well be what happens over the next three years from time to time.

Q9 **John Grady:** You will feel entirely comfortable saying no to your former contacts in the industry.

David Soanes: I will not feel entirely comfortable about it, no. I do not feel entirely comfortable saying no to anybody really. It is all about credibility. On the other hand, I could say that, when I say no, it might have some great credibility associated with it because I have actually really lived their experience.

Q10 **John Grady:** What would you most like to achieve as a member of the

PRC?

David Soanes: I am going to start off by trying to gain some credibility on the PRC. While I bring credibility from my investment banking career on the commercial side, I do not have any credibility in the PRC and at the PRA. That is going to take me some time.

It strikes me that a mood shift has gone on. There are going to be question marks about the regulator and there is an upcoming strategic paper going to be issued, I think, by the Government around growth and competitiveness. They are consulting on it now and that may well set the mood music. I hope that I can explain to the PRC and the PRA how changes and that feedback can be adapted to help ensure that the regulation is correct and the environment in which firms are operating is as supportive as it can be, while remaining stable.

Q11 **John Grady:** What do you think the PRC can do to improve its operation?

David Soanes: Quite a lot has just happened. You look at the first wave of SCGO changes, so the international competitiveness and growth changes. Quite a lot has happened. I will take one example of the matching adjustment. The matching adjustment is a significant change, in that 10% no longer has to be fixity. Here, you can measure how much use of this 10% insurance companies make. Are we going to be coming back in two years' time saying, "It can't be 10%. It has to be 15% or 20%", or, "There has been almost no use of it at all"? Have we got that right? Has the insurance industry got it right? Have the Government and the PRA got it right?

For some of these changes, you will be able to say what has happened since we did it. There is quite a lot of work going on around bonus payments or remuneration generally. There is the reduction in the years that it has to be held and a removal of the cap, which has happened already. That is measurable in terms of what happens. How many more senior folk are based here and is there any change in behaviour? It is measurable.

Q12 **John Grady:** In your experience, do you think that financial firms can be disingenuous, or shall we say less than helpful, to regulators, and in what way?

David Soanes: "Disingenuous" is not a word I would like to use. Can regulators be disingenuous to firms to try to get their ends and means as well? It is a difficult dynamic. You are trying to get close enough to really understand but keep the distance. This is happening on both sides.

The culture of firms has changed remarkably. It is a change, I think, because of the SM&CR. The senior managers regime made enormous additional resource become available for the governance of firms. It is very much a UK-specific thing and we can talk about the various complexities around it. Consequently, I have not seen this disingenuousness that you mentioned. Is everyone always honest all the time? No, they are not. The industry, the regulator and all of you folk in this room here are all part of the human race. There are always going to be a few people in there who are not telling the truth. We have to be wary of that. That is why we have operational risk capital.

Q13 **John Glen:** Can I turn your attention to growth versus regulation? It is the area where there is a lot of focus at the moment. The financial services sector is a massive part of our GDP in the UK. We have the legacy going back to the previous crisis. The view could be that we put in place some pretty strong guardrails following that, but we now need to look at whether those are fit for purpose in the world that we live in now.

You just described the changes to the matching adjustment consequential. There are two changes. Do you think that there are other areas that we should have a conversation about between Parliament, regulator and industry around what could and should change in the context of the distance from the last crisis and whether they are still live or should be live?

David Soanes: It is perfectly reasonable that the last crisis led to this very great surge in regulation. It is entirely expected. Firms benefited greatly from that. The credibility that firms got from the enforced regulation helped them recover their reputations for being a place you could put your money, be insured by or whatever else. There is a great deal of commercial benefit from being able to say, "We are regulated by the PRA and the FCA, and we have to do this. We have to be strong. We have to have these rules". We rely upon that. Certainly, some firms were more affected than others by the financial crisis and they particularly benefited from this.

That aside, it is likely that the thicket has become just that. There is the interaction between the MREL, the leverage coverage ratio, the net stable funding ratio, the liquidity coverage ratio, the overarching requirement for equity capital, the make-up of the instruments that make up own funds, et cetera. Of course there is a possibility that that has all got too intermeshed. It is more likely that where we are going to be able to make some changes to reduce the cost for firms, which means they can make and therefore sell their banking and insurance products more cheaply, is in reporting and things that are duplicative around training. There might be something on the certification regime of the SM&CR. It is things like that.

I do not feel that, given the experience of covid and the war on Ukraine, there is a great appetite from firms or the regulator to reduce capital requirements. In having them, they are reducing the cost of the business. The debt cost of these firms has been more stable as a consequence, which is fundamentally what drives the price at which they lend.

Q14 **John Glen:** I recognise that that is likely to be the view of all regulators, because they are unlikely to say, "We have got it wrong over the last five or 10 years and have been holding competitiveness back". You have given us a constructive perspective on what could change. Could I probe that a bit further? Could you try to characterise what those changes to reporting, training and some of the other things you mentioned could mean in terms of competitiveness? People watching are probably a bit frustrated by the letter of the Chancellor and the response of the regulator, trying to be helpful. How do we quantify this? How do we get a sense of how meaningful the changes you mentioned could be and how quickly they could have an effect on growth in this country?

David Soanes: The numbers were put into the record in the House of Lords by the CEO of the PRA in January, where he said that the cost to insurers of reducing their reporting by 35% was between £90 million and £170 million. That is the cost—it feels to me like a substantial number—to serve against an annual saving of £60 million.

This is part of the problem. If you are sitting there at a firm and the phone rings, and it is the regulator saying, "Good news, we are going to get rid of this, that and the next thing", they are not high-fiving. It is more work and cost. It is quite a delicate balance. When MiFID came in, it cost a firm I know very well over a billion Swiss francs. I am slightly giving the game away. Unwinding that is a future benefit. It is a delicate balance. Culturally, collecting data for the sake of data can change. We are having this discussion about data right now, when actually the ability of the regulator to use that data has gone up incredibly.

Q15 **John Glen:** My colleague Dame Harriett Baldwin and I were Economic Secretaries to the Treasury and these conversations are probably more familiar to us. You were on TheCityUK council as well and we have had those conversations previously, but how quickly can we bring in some of these things?

One thing that I am wary of is that, whenever we have legislation in Parliament, there tend to be well meaning amendments from the opposition party of the time that say, "Well, we must have regard to this", thinking that it is going to be instrumental in dealing with climate change, for example. As you look at the set of obligations you have in front of you from legislation through Parliament, is there anything that is there in form but not in reality and is giving a burden to institutions? How do you see that? Is that something that can be addressed through the call to action that the Chancellor has made?

David Soanes: There are 25 have-regards. I have heard it might be 31. Of course, they are very well meaning. The PRA has to be able to account for every single have-regard because, through the PRC, we answer to Parliament. Rather than make work for the PRA, it might be that it is on you to decide what not to have regard to.

Q16 **John Glen:** Is that not what is required to free you up? There is this interplay of well-meaning but contradictory dynamics between Parliament and the regulator, which means we are asking you to do two things at the same time. We are asking you to enable growth while taking account of a vast range of additional things.

David Soanes: That is absolutely right, but I am not sure where else it can land. Someone has to be the meat in the sandwich, and it is the PRA and the PRC. I understand why the very thorough process in Parliament ends up where it ends up. We have to try to make the most sense of that. I have looked at the have-regards. I cannot easily tell you which one to remove. It is just a difficult situation. It is a very complicated business.

Q17 **Bobby Dean:** Sticking on the same theme, in your questionnaire response there is a line that said, "The consequences of the financial crisis in 2008 are still fresh in the memory, at least they should be". In your conversation with Mr John Glen there as well, I get this sense that there is not a major opportunity for growth from regulatory changes. It sounds like there are definitely regulatory changes that need to happen to tidy up the thicket, as you described it, that has emerged over the years. We can do some simplification here and that might reduce some costs to business, but are there really major growth opportunities in regulatory reform for the real economy?

David Soanes: First of all, less than 10% of MPs were sitting in 2008. The Chair is one of them and another member of this Committee, who is not here today, is another. I am not saying that means that Parliament is not aware of what happened in the financial crisis. Clearly, it is.

The financial crisis is still today's business for people who are in it. The appearance on banking balance sheets of assets that they could not value, which therefore led to a loss of confidence, is a constant thing to battle against. That is the first point.

In terms of moving forward, a little bit more time since the last major threat, which was covid and then the Ukraine war, is justified. It is more justifiable to think that what happened is very recent rather than thinking it is in the past, if you see what I mean. That is how the PRA might feel. I have not asked the PRA about it.

Q18 **Bobby Dean:** Just going to your first point, I was 18 in 2008. I have lived with it my whole adult life, so it is quite present in my mind. I am sorry. I have annoyed a lot of members of the Committee, but it shaped my entire adult experience.

The point I want to get at is that there is this massive scramble for growth from this Government. They really want to make it happen. We talked earlier about how there are some ways to achieve growth that might only be growth for the short term but result in long-term instability. Are you fearful of any downward pressure from this Government on that point? In this rush for growth, might they push measures that could undermine the long-term stability of the economy?

David Soanes: In my evidence, which you have read, I deliberately did not include growth when I talked about the stand-off between prudential standards. There is not a stand-off between prudential standards and growth. You cannot have growth without stability, end of story. Equally, you need growth to build firms' resilience, build their profits and allow them to be active members of the economy.

Competitiveness is a different matter. You can make very different rules to make your banking system or your insurance system more competitive. The changes to the SPV rules, which are coming in on the insurance side, are going to make insurance more competitive. There are also the risk margin changes in terms of the amount of capital firms have to hold in the event of a transfer. These things are going to help competitiveness.

As we have talked about before, there are some rules around securitisations and the deductions required by insurance companies to hold them. All of these things are going to help our competitiveness, but they are also going to increase risk. That is a trade-off.

Is there a risk that the Government's push on this is going to lead to bad decisions? As the Chair's op-ed said, the debate is live. I expect there will be pressure to look again and again at this. We will have to keep answering that question. If economic growth starts to go, people might move on from that discussion.

My instinct is that the lever of regulation on banks and insurance is not the place where entrepreneurship, ideas, passion and all the energy required start. It can stifle that, if you are not an engaged regulator and you are not trying to be helpful. We have heard the concierge news and the new start-up business ideas on the banking and insurance side. That all helps. Culturally, when you go into the PRA, who do you meet? Do you meet someone who is trying not to help you or someone who is trying to help you? It is the latter.

Q19 **Dr Sandher:** You spoke a bit about the ways in which you need regulation for growth. You also spoke a bit about risks and about climate. I want to pick up on some of that. In your answer to the questionnaire, you make the point about the systemic risks that climate faces. Specifically, you say that the risk to financial stability from climate change is of "an abrupt repricing, where the future value of a given sector quickly changes across the banking and insurance industries". Can you please elaborate on that point?

David Soanes: Suppose nuclear fusion comes into being. That would be great, but it would have very severe consequences on a large part of the carbon energy market. Banks across the world are exposed to the carbon energy market, and of course our insurers and asset managers are as well.

No one thinks nuclear fusion is going to happen anytime soon, but the work on the green transition is going to lead to developments in either carbon capture, which would be positive for carbon industries, or something else that is going to be negative for carbon industries. These are very substantial elements of the banking and insurance solvency that we have. If you change their present value substantially, you are going to have an issue to deal with.

So far, if you look at the regulatory process that the PRA is running, it has done stress tests on climate. It has not yet put in climate-specific capital requirements for these sectors. It is being talked about, but it seems to me it is not going to happen anytime soon. I am trying to give you a specific answer to something like that.

I am thinking of other abrupt repricings. Clearly, there has been a slow repricing of the ability to provide flood reinsurance or flood insurance. Today, many folk cannot insure their homes at a reasonable price. We are going to reach a situation where people decide not to insure, which is collectively very bad as well. Individually, it might make sense; collectively, it is very troubling.

How do you fill that gap? That is not an abrupt repricing, but it is a substantial change to the way that we value millions of homes in this country. You can value a home in many ways. One way is to say, "Can I insure it?" If you cannot insure it, you cannot lend against it. If you cannot lend against it, it is fundamentally worth less.

Q20 **Dr Sandher:** On that, are you worried about stranded assets in the financial sector from climate risk that is not currently being adequately priced, as in a future price change?

David Soanes: Maybe I am being too optimistic about this country. We have had some devastating floods here, but there has also been an increase in flood defence. In the event that climate change carries on in a way that does lead to sea levels that lead to substantial parts of, say, the River Thames becoming uninsurable, yes, that is going to be a substantial change. That is not captured anywhere.

It is captured in a way, though, because a lot of these houses have very old mortgages against them. A lot of houses do. Those mortgages probably have a disproportionate level of capital against them versus the risk they offer.

Q21 **Dr Sandher:** Thinking about that, my final question is about the PRA, its role and maybe your role going forward. How should the PRA change its supervisory expectations to account for these risks, changes and the climate transition that is coming before us?

David Soanes: It should not change them. In my answer, I wrote that it has notably increased focus and pressure. These are supervisory expectations. It has brought as much focus to this as it can. If it brought any more, it would probably be subject to the opposite charge: that it was overdoing it.

It is the law in this country that by 2050 things will have changed, so the regulator has regard to that. That is part of it, but I am not arriving on the committee thinking that it is underweight on this subject.

Q22 **John Grady:** Mr Soanes, you used a very interesting phrase a wee while ago, which was, "It is a very complicated business". Against that background, what two or three things do you believe that you and other members of PRC should be really worried about over the next 10 years?

David Soanes: Is this the same question as, "What keeps you awake at night?"

John Grady: It is a variation. You might be a good sleeper.

David Soanes: There are two major risks. The first is the risk-free rate, which is effectively the rate that Governments borrow at, and the requirement of Governments to continue to borrow substantially. If you start to push up the cost of capital because the risk-free rate is going up, that is a chilling effect on economic growth. In certain countries, such as this one, there is a fiscal framework that is designed to prevent that happening. In other countries that have been going through economic expansion, they are still running a 6% deficit to GDP. It is at the wrong point in that cycle. The risk-free rate is number one. That is fundamental.

The second thing is just this simple point about assets arriving on banking balance sheets that are not well understood and are not immediately liquefiable. In the crisis of 2008, it was CDO-squared and CDO-cubed. It became an asset that was so complicated it could not be valued and banks lost confidence in each other. We saw what happened.

How could that be coming this time? Banks are lending substantially to private credit. If those private credit exposures are direct, it is one thing. If they become the AA tranche of a securitised CLO on the back of a whole bunch of private lending, that asset can become quite complicated. In fact, it is a complicated asset. If that appeared at too great a rate on a bank balance sheet, I would be worried about that.

The PRA has already made steps to stop that happening. You can make a similar case in the funded reinsurance market, where effectively you are changing insurance risk into credit risk. That credit risk is being taken in a bunch of assets, some of which are structured.

Q23 **John Grady:** On the first chapter of your answer on the risk-free rate, is your real concern that various western economies are heavily indebted and, if the cost of borrowing goes up, that will feed through to the rest of the economy?

David Soanes: Yes, because the population is ageing. Two things are happening there. You have higher costs of social care and you have a less productive economy in the younger years.

Q24 **John Grady:** You are calling for fiscal caution on the part of western

Governments.

David Soanes: I am making absolutely no comment on the fiscal situation, but it is something to be aware of as a banking regulator that the fundamental building block on which all banks and insurance companies are valued is the risk-free rate. That is money.

Q25 **Rachel Blake:** You talked about how changes in remuneration and the removal of the cap were measurable in terms of behaviour. Can you elaborate on how you can measure those and what you are seeing in terms of those behaviour changes?

David Soanes: I did say that. I was trying to say that by removing the bonus cap and removing the term by which bankers get their bonuses, and some other executives too, you can measure how many people are attracted to the country who otherwise would not have come. Are we seeing an expansion after many years of stagnation at best and probably shrinkage? That is going to be measurable.

Can I measure the lack of cultural change caused by changes in bonuses? I have gone too far, if that is what I said. I was not trying to say that.

Q26 **Rachel Blake:** You said it will be measurable. Can you give us any figures that you are observing?

David Soanes: What is measurable is the number of people arriving here and the number of people, therefore, arriving here who are willing to be subject to the senior managers and certification regime. I am talking about that. That is what I would measure.

You could measure the ability of those people to follow the senior managers regime through how many enforcements the PRA or the FCA is forced into. That is measurable. I was not really trying to make that point. I was trying to make the point that we are trying to make our very large financial sector even more competitive internationally. It should result in more people wanting to work here, be employed here and pay taxes here.

Q27 **Rachel Blake:** Can you measure improvements in the culture of firms?

David Soanes: Yes, you can measure improvements in the culture of firms. On the one hand, you can measure it simply through how compliant people are being. Every firm has a large training programme, very substantial. Are people doing it? Are they doing it quickly? Are they taking time over it? You can measure all of this. How many personal account dealing infractions are there? How many times is the regulator notified of bad behaviour?

It is measurable, and you can see it. I reckon it has been pretty constant. It is not getting worse; that is another way of saying it. In the event that we do attract substantially more bankers back here—it is bankers we are talking about here in terms of the changes to comp—we will be able to see whether those numbers go up.

As Andrea said, measuring culture is difficult because you are constraining that culture by the rules themselves. All of the drivers on the road in financial services are not driving above 70 miles an hour because they cannot. What if we took away those restrictions? We do not know.

Q28 **Yuan Yang:** Mr Soanes, you have said in your questioner that you do not intend to give public speeches other than, of course, as part of your schools outreach work. Could you explain your decision not to give speeches and speak a bit more about how to improve transparency when it comes to knowing how well the PRC is doing?

David Soanes: I am not going to give speeches because I cannot say anything interesting. Everything that is held at the PRC is too confidential to talk about. Therefore, my speech would be limited to very high-level architecture or functioning, if you like. I like giving speeches. It is not something that I do not do because I do not want to.

I accept the question. The whole point of the question is that the PRC is not transparent. I have not checked this answer with anybody so it might be the wrong one.

Chair: You have now been appointed by the Chancellor.

David Soanes: It strikes me that there is a parallel here between what has just happened at the FCA and the discussion about naming and shaming. If we were to publish our minutes and have more transparency, we would be in the same debate with you. We have not gone near that debate so far, and I certainly will not be pushing for that.

Q29 **Chair:** Part of the transparency is that you are here in front of us with Mr Enria.

David Soanes: That is exactly right, and I will come back.

Chair: There was an offer.

David Soanes: Only if you ask me.

Chair: You should see the reactions from the people behind you. No, I kid you.

Q30 **John Glen:** Could I turn to the relationship between the non-bank sector and the risks to PRA-regulated firms? In your last answer you focused on this. It leaves quite a few things hanging in terms of how this might play out and therefore what the PRC might do proactively to get to a better place on this. Could you say something about what would be a reasonable way forward, given the explosion in the growth of the non-bank sector and the way they are not regulated?

David Soanes: Yes, something like half of the credit creation since 2010 has been non-bank credit creation, which is market-based finance. It is a very substantial sector.

Q31 **John Glen:** For the benefit of those watching, what does that look like? Could you give some examples?

David Soanes: It is firms that are not banks. They are not taking deposits to create the resources from which they can lend. They are borrowing money in the financial markets, often collateralised against the very assets they are going to create. There is a bit of chicken and egg there, but effectively they do not have banking capital in the event that things go wrong. They maybe do not need banking capital because the people who have invested in them are effectively wearing the risks of the assets that are being bought by these parties.

Q32 **John Glen:** We are talking about direct lending, mezzanine funds, private debt funds, crowdfunding, hedge funds and peer-to-peer lending.

David Soanes: Yes, I would not include hedge funds in that.

John Glen: But all of the others?

David Soanes: For the vast majority of the others, I would agree with that, yes. They have played a very important role in providing credit to people who otherwise would not get credit. If you look at the market for credit spreads right now, credit spreads are trading extremely tight. There is an extremely tight market for credit products, which you would expect given the amount of liquidity in the markets. That is still the hangover from the emergency supply of liquidity that central banks had to provide.

If you have a situation where lots of credit funds are looking for opportunities, they are going to do two things. First, they are going to expand their horizon. They are going to make their products a little longer, a little less liquid and a little more structured. Secondly, they are going to make it cheaper. That is what is happening.

It might be that this is going to carry on perfectly well, but, if there is a higher rate of interest than people are expecting or a slower level of economic growth, some of that lending will go bad. When that lending goes bad, it can stay outside the banking system and the insurance system, if it is not in those systems. It is in those systems to a certain degree.

What the PRA has done around funded reinsurance has absolutely changed the speed with which that was happening. That is a direct result of concerns about credit, not necessarily just private credit. What it is doing around limiting individual exposures to private credit is also a direct response to that on the banking side.

That might stop it. In the US, the FDIC enquired about it to various banks. You get some big numbers coming out of it. There is $1.2 trillion of lending to private equity and credit, but the equity is not for equity; it is for portfolio companies and sometimes the equity managers themselves.

Q33 **John Glen:** In your answer you say, "As liquidity is withdrawn the quality of this lending, and privately issued currencies, will be revealed". That sounds like, "Well, we will see what will happen". Those reading or hearing that will think, "What more should the PRA be proactively looking at to avoid the eventuality that that is in a bad state, leaving your regulated firms in a precarious position?"

David Soanes: Fair enough. That was a global comment, really, which is not necessarily that useful to this questionnaire. I was trying to make the point that there have to be consequences for all the additional liquidity we have seen in the market. Those consequences are the price we are paying for solving the emergency in the first place. I do not yet know what they are.

What can the PRA do about it? It can do what it has done: limit exposure to private credit and limit exposure in the insurance sector too. It has done that. It is nervous of that.

On privately issued currencies, I am particularly talking about the £2.5 trillion crypto market. The impact from that on the banking sector and the insurance sector in this country is very limited.

Q34 **Chair:** Finally, you have been a very busy banker for a very long time. You are the vice-chair of a parish council, a member of a deanery synod, an adviser to the ClementJames Centre and on the development board of Duchenne UK, so you have other things going on. Do you have ambitions to take on any other roles as well as the PRC?

David Soanes: No, I do not. It is going to be my only role.

Q35 **Chair:** You do not think you are going to get bored after a very busy career.

David Soanes: No, I do not. Two days a week is going to be a lot. Hopefully I will do three or four, but it is paid for two.

Chair: There we go. That is a good way of winning over a Committee that looks at how taxpayers' money is spent. Thank you very much indeed, Mr Soanes. Can I thank our colleagues at Hansard for recording this and our colleagues at Bow Tie for the broadcasting?

We will go into private session in a moment to deliberate on our comments on the two candidates who have been appointed to the Prudential Regulation Committee. Thank you very much indeed.