HOUSE OF COMMONS

Treasury Committee

Oral evidence: The appointment of Niamh Moloney to the Prudential Regulation Committee, HC 783

Tuesday 18 March 2025

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Watch the meeting

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

Questions 1 - 30

Witness

I: Professor Niamh Moloney, Appointed External Member, Prudential Regulation Committee, Bank of England.

Examination of witness

Witness: Professor Niamh Moloney.

Q1 **Chair:** Welcome to the Treasury Select Committee on Tuesday 18 March 2025. We are delighted today to welcome Professor Niamh Moloney, who is being appointed to the Prudential Regulation Committee of the Bank of England. She is the third pre-appointment hearing that we have held. We had her colleagues in last week. We are delighted to welcome you, Professor Moloney. Thank you very much for your questionnaire and sharing your CV with us.

I wanted to kick off with a couple of very basic questions, if I may. You mentioned in terms of the conflicts of interest, or potential, that your husband is chief credit officer at the Bank of Ireland, but only with the Irish group and no connection with the UK subsidiary. Can you confirm that that is the case?

Professor Moloney: Yes, that is exactly right. For the record, if there are any issues relating to the subsidiary in the UK, I will of course recuse myself. On an ongoing basis, I will always check in with the Bank secretary as to any potential conflict or, indeed, a perception of a conflict, because that is incredibly important.

Q2 **Chair:** Absolutely, that is the answer we would hope to get, so thank you for that. Also, you are based at LSE and he is working in Ireland. Can you tell us where you are based?

Professor Moloney: My home is in Dublin, but I am in London Monday to Thursday, or Monday to Friday, as needed. I commute back and forth. It is very much a long weekend in Dublin and then working in London during the week.

Q3 **Chair:** You will be here for more than just the meetings.

Professor Moloney: Completely, yes. At LSE I am teaching. I have my job there, so absolutely.

Chair: That is very helpful to know. Thank you very much indeed.

Q4 **Rachel Blake:** Thank you very much, Professor Moloney. It is really good to have you here. We are hearing a lot this week about the balance between growth and regulation, and I would be really interested to hear from you about how you see the relationship between regulation and growth.

Professor Moloney: I guess that it is this huge framing question we have at the moment about regulation. The way I approach this is coming from my perspective as an academic. I have been lucky enough to watch this over a long cycle of 25 to 30 years. There is a completely strong relationship between strong prudential regulation and growth. They are entirely connected. We see this over cycles of time. A sound, secure, stable financial system is absolutely a condition precedent for growth.

If I may, there are probably two examples. Of course, the major one is the financial crisis. We all know that and lived through it. That has been such a live laboratory for the critical importance of sound regulation. There is also a positive example. During covid, the fact that banks could engage in payment breaks and give breaks on mortgages were things that had a real direct impact on households far away from the complexities of bank regulation. The fact that a mortgage could be broken or a loan could stop was a reflection of how strong the banks were. It is a very good recent example of the absolute interdependence between strong prudential regulation and the capacity for growth.

Q5 **Rachel Blake:** You talked about the financial crisis. The Chancellor has talked about the response and reaction to the financial crisis perhaps having gone too far. How would you see the response to the financial crisis, particularly in terms of the roles of the Prudential Regulation Authority?

Professor Moloney: We had a completely necessary rebuild of financial regulation around the time of the financial crisis, and for a number of reasons. First, we saw that there was a lack of information. We did not know what was going on in large parts of the financial sector and that was why we had so many issues. Secondly, we saw that there was a real issue with pure financial resilience. Banks did not have enough capital; they did not have enough liquidity. Those really important metrics, if you like, for soundness and stability had gone askew. Then there were all these very long stories of conflicts of interest and incentives. These are really old stories in financial regulation and they crystallised to catastrophic effect over the financial crisis.

There was a need for a rebuild. The rebuild was done. It was done very effectively. We are 15 years out and that is always a good moment to have a look. Is it working? My own sense is that the core legislative frameworks are working super well. There are always things that can be done around reporting and in the deep details of rules, but the legislative structure is working super well. Covid really was a test for that. It showed us the system working. It is a reminder. The difficulty with regulation is that, when nothing is going wrong, it is actually doing a good job. We should remember that, going back over the 15 years, we have not seen major crises or problems, and that in itself tells us a good story.

Q6 **Rachel Blake:** You highlighted that there was not enough resilience in the run-up to the financial crisis and the conflicts of interest around conduct and behaviour. Where do you think there is the scope in that case to encourage growth through the work of the PRA?

Professor Moloney: There are a couple of things. The first one is keeping that absolute laser focus on whether the banks are sound and secure. That is a real attentiveness to the core business. It is the primary objective of safety and security, so the real basics around capital liquidity and everything I see. I am an external member right now. From public documents, the Bank has a really strong grip on that. It is never losing sight of that. That is the core mandate of the Bank.

Then there is how we do regulation and how it goes live through the business of supervision, and attentiveness to whether that is happening in the most effective way. One of the most innovative things the Bank, or any regulator, has done recently is the strong and simple regime. That is absolutely laser focused on the soundness and stability of smaller banks and yet it has taken a fresh look at whether we have the right rules in the right place. That kind of analysis completely works with safety and soundness, but it is bringing a freshness of perspective as to how that is done.

Chair: Before I move on to Mr Chris Coghlan MP, I forgot to declare an interest, in that I have a family member who works for Allied Irish Banks. There is a bit of an Irish theme today, perhaps after St Patrick's Day, or perhaps not. It is a coincidence, I should stress. John Grady MP, you have an interest to declare.

John Grady: Yes, I do. I have a family member who works for Virgin Money.

Q7 **Chris Coghlan:** Thank you, Professor Moloney. You say that regulation is working super well, and you used covid as an example of that. How does that fit with former Prime Minister Truss's mini-Budget in terms of the issues with pension funds? Was there a regulatory failure there, do you think?

Professor Moloney: That is a really interesting question. One thing about regulation is ensuring, almost like the cockpit of a plane, that you have all the dials in front of you and full sight of the system. One thing we learned over the LDI episode was having full sight of all the bits of the financial system. For example, say, over covid, money market funds started behaving in a way that was causing difficulties. If we go back 10 or 15 years, it was credit derivatives. I suppose the lesson we take from it is that it is that sense of that bird's eye view across the system that all the regulation is in place.

If I may, as an external observer, one of the real strengths of the UK system is the Financial Policy Committee, the Prudential Regulation Committee and the FCA. It is a huge financial system in the UK, but they are all pulled together with all these different sights on the system. There are always places that give you a sense, "We've got to look a bit more sharply here". One real benchmark thing the UK has done recently is the system-wide stress test that was done a few months ago to see how the whole system was interacting together. That might even be a global first. That is an incredibly important benchmark for how to exactly make sure that we have a full light on those sorts of areas.

Q8 **Chris Coghlan:** Is it not the point that, if the Chancellor requests you scale back some of the regulation, issues like the LDI in other contexts reappear?

Professor Moloney: I do not want to sound traditional, but looking back is helpful. One thing I think about a lot is that there are three or four major risks that recycle all the time in the financial system, which emerge in new settings. Conflict of interest risk emerges in a slightly different way. Stability risks emerge in a slightly different way. An information gap emerges in a different way. It is so important to have that toolkit primed, refined and ready to go, because you never know when you are going to need it in a slightly different context.

When one looks at regulation, it is not so much an issue of deregulation but whether we have the best possible toolkit for the future. Regulators do not have a crystal ball but do have hindsight of where things can go wrong and a sense of where the obstacles may be. Having that toolkit primed, ready to go and ready to be changed, to be moved and applied in a slightly different way, is incredibly important.

Q9 **Chris Coghlan:** One of your PRC colleagues, David Soanes, said in his questionnaire that the PRA has made progress in the secondary competition objective, but the limited changes to the competition landscape suggest there remains scope for more progress. Would you agree with that?

Professor Moloney: Competition is a tricky one. It is impossible for a regulator to say, "X number of banks equals a properly competitive system". It is a watching brief thing, is it not? Do we have the absolutely optimal conditions where you can have maximum competition? As an external person looking on, there are a couple of things I would say.

Some of the really practical plumbing has been very useful, so the new banks unit, a unit that knows how to talk to new entrants. Getting a banking licence is a massive deal. It is hugely complex. Having that face, system and attentiveness to the risks and challenges a challenger bank faces is super important, and it is institutionalised. It is a centre of expertise. That is a really good thing. Something like the mobilisation period, where you go up the curve in a careful way, is really helpful and practical.

If we look at some of the numbers, I think that it is something like 39 or 40 new banks over the last 10 years or so. I do not know whether that is the right number, but it seems like a sustainable level of new entrants into the system.

There is one key thing to keep in mind in terms of competition. I go back to this sense of the recycling risks. It is really important that we do not have slightly off incentives when it comes to competition, because that was one of the issues in the financial crisis. There was a super amount of competition around securitisations in certain parts of the market. A sustainable, steady, structural approach to facilitating new entrants, which is what we have, is a good thing.

One small point is that the PRC has an appropriately open and responsive approach to international entrants. That is very important because they are bringing potentially new business models and ways of doing things. They are learning from global groups. From everything I can see, its policy and posture on international banks is an appropriately open one.

Q10 **Chris Coghlan:** You talked about the 39 to 40 new lenders. Is the number of new lenders your main metric when you think about competition? Why do we need a large tail of small banks to be competitive?

Professor Moloney: Metrics are really tricksy. For me, I am not sure it is a metric, but something to be very attentive to is the consumer experience, so just regular people. Are they fully banked? Do they have the full range of services? Can they get their phone answered if they ring up the bank? Are they confident in getting the right kinds of products at the right time? That metric will not necessarily show you that, if at all, but there is that sense that the banking system is delivering for households.

In my life as an academic, something I am very conscious of while I work in this field is the consumer piece, if you like, because prudential regulation is complex. It is liquidity, capital, insolvency and MREL, but, ultimately, something I say to my students is that you go back to £900 billion in interest-bearing deposits. That is Christmas presents, holidays and saving for the future, so it is bringing everything back to that. To go back to your question, I am not sure that there is a magic number, but there is an intuition as to how people feel about the banking system. That feeds into whether we have the right level of competition.

Q11 **Chris Coghlan:** You mentioned the new banking unit. How far do you think it should go in terms of allowing new entrants to grow to encourage competition against the risk of having, I guess, easier rules for new entrants?

Professor Moloney: I think a couple of things. A banking licence is a really big deal. Obviously there is the ringfencing system but, none the less, you have deposit protection and a very particular position in the economy and in society. It is not a regular industry. It is a big deal; the licence matters. Because of that, it is appropriate that it is a challenging process. We have all sorts of rules about fitness and probity. Can you run a system properly? Do you have the right level of capital? That baseline cannot ever be degraded. That has to stay in place. Of course, there are ways of communicating that, helping the sector understand how that works and explaining it.

There is a rock solid baseline on what it means to be a bank. For me, it goes back to the term, "a deposit-taking institution". That is an incredibly powerful service to provide in the economy, so that baseline has to be rock solid. How you communicate that, facilitate and explain is very important.

Chair: It is interesting you say that, because some of the challenger banks have complained about how long it has taken to get a licence. It is interesting to hear that definition of rock solid.

Q12 **Dame Harriett Baldwin:** I wanted to go back to the line of questioning from my colleague Rachel Blake MP about growth. We have heard from the Governor on several occasions that the UK's growth rate started to achieve a much lower rate after the financial crisis, suggesting that there was something that happened at the financial crisis that has had an impact on the growth rate that we have observed since 2008. I wondered, in your academic studies, whether you were aware of anyone who had been able to look at the link between the UK's growth rate and the level of capital that the banking system had to find and add since the financial crisis.

Professor Moloney: The financial crisis was a real life catastrophic laboratory in how the financial system feeds back into the real economy. From the various studies that are there, there are a couple of things you bring through. One is consumer confidence, so long tails of mortgages, long tails of non-performing loans and a lack of confidence in consumer spending because the money supply has shrunk, mortgage payments are a struggle and people are losing jobs. That is feeding into growth and the economy generally.

Of course, the capacity of the banking sector to fund productive investment and growth took a hit over that period. We see all these graphs of the contraction in credit supply. Linked to that, you are getting the contraction in markets. There are all the levers where, normally, if something is not working, something else picks up. They all started stopping around the same time and you get this very long tail.

We entered into a period where regulation and the financial sector were rebuilding. That is where everybody was focused. The senior management of banks and the investment markets are rebuilding capital. They are rebuilding the balance sheets of banks, so that is where management is focusing.

When you have all these things coming in together, you are going to take a hit on growth. There are various academic studies out there. Certainly there is the sheer hit in terms of the cost of the financial crisis. In Ireland famously it almost overcame the economy. In the UK it is something like over a trillion. When there is this massive redirection of public spending, that is going to hit the economy as well. We should not get hypnotised by it, but it is a very good example of how, where the banks cannot lend into the real economy, you have very big issues.

Q13 **Dame Harriett Baldwin:** Are we in an okay position now? You mentioned the resilience and the fact that we have gone through all these different shocks and actually the banking system has come through them. There have been live stress tests. We have had the Silicon Valley Bank failing. We have heard regularly from Sam Woods that he is not running a zero-failure regime. He is running a regime where things can fail safely. Do you think we have got things right? Can you expand from that into the question around Basel 3.1 implementation? It looks as though the US is not going to implement. It looks as though the EU is very reluctant to implement it. Should the UK be an outlier in terms of implementing it?

Professor Moloney: Are we where we need to be? I was looking at the Bank's most recent financial stability review. That told us that, in November, mortgage lending is up. It told us that non-performing loans are reducing and lending into the corporate sector is increasing. If you look at that sustainable, steady supply of credit into the economy, that tells us a good story.

The other metric I would look to myself is the interest rate shock. I remember teaching this material with my students over 2014 and 2015. We were all talking about a lower for longer paradigm. The world of interest rates had completely changed. We had moved into a world where interest rates would be 0% or 1%, and the whole financial system and how we teach financial regulation was working in a lower for longer paradigm, or lower forever paradigm. We literally went from 0% or 0.1% up to 5% and then back again. We did not have, thankfully, a long tail of mortgage problems, because the system was working and stress testing properly. That is telling us that the current capital system is working pretty well.

Basel 3.1 is now a major intervention. On what I think about Basel 3.1, it is very important for that consistency and coherence across the global capital system. One of the famous statistics out of Basel 3.1 is that you could take a bundle of assets and get 13 different packages of risk-weighted assets, which is not very sensible. It is not good for competition because it is not clear. Are all banks operating off the same playbook when it comes to their capital positions? It opens up a risk of a problem somewhere because it looks like a bank is properly capitalised, but maybe it is not. That sense of getting greater risk sensitivity into banking assets was a really good thing.

Very much going to your point, Dame Harriett, that sense that we have the right degree of risk sensitivity is critical for growth. Basel 3.1 has lowered the risk weights for residential mortgages. It has made the risk weightings more finessed around infrastructure and SME lending. In the UK, I think that the capital will increase by about 1%, which is not massive, but it will be more risk sensitive. It will give banks that flex to direct their capital perhaps in a more productive way, depending on their business judgment. It has built that greater risk sensitivity into the system, which is a good thing.

One very good thing from it is that the "following the standard set of rules" way of doing capital and the super high-powered, models-based way for the most complex banks have been brought into alignment a bit more. That is a good thing, because it makes it easier for smaller banks to compete. There are more sensitive risk-weighted assets so firms can make very risk-focused decisions, which should support growth. It is making the playing field a bit more level between the smaller banks and the significantly more complex ones.

Then, of course, we are seeing different jurisdictions going at different paces when it comes to Basel 3.1. I suppose where I come out on this is that these standards emerge over a long period. Basel 3.1 has been in the mix for a very long time. There is a lot of input. There is a lot of industry input, data and stress testing through the negotiations. They are probably never perfect, but they represent a really good moment in time. They play back, I think, a kind of consensus as to where the system should be going. An aligned set of standards is a good thing for the global economy.

One really big change after the financial crisis was a significantly more granular international rulebook, which is a really good thing. There is the Financial Stability Board. Basel has done more. There is everything from AI through to critical third parties. A lot of that now is becoming more standard internationally. That makes sure that we have a level playing field, which is really good for the UK industry. It also ensures that there is less risk of an accident across the global financial system, which is better for the UK financial sector.

As an academic, I would love to say, "Everybody lines up at the right time", but life is what it is. There will be a political economy here. As an academic, I take my lodestar from FSMA. FSMA is a superb piece of legislation. I teach it. One thing that FSMA is superbly good at is that it is clear as to what regulators should do. It really is the primary objective, the secondary objective and the "has regards". Regulators have no inherent power. They take it from the political process. Looking at the legislation, specifically with capital, with regard to the international system, and then in the competitiveness and growth secondary objective, we have aligned with international standards. That is incredibly important as a direction from the political process.

Q14 **Dame Harriett Baldwin:** It was a wonderful answer and very well informed, but I do not think I heard whether, yes, the UK should go it alone, or, no, we should wait until the rest of the major competitors in this space go too. I just want a yes or no.

Professor Moloney: I would say yes. It is a good set of standards. The reason I say yes is that it is really good for the banking sector. For the more risk-sensitive assets, what it does in residential mortgages and how it improves competition, it is a good thing.

Q15 **John Grady:** We have spoken a lot about the banking sector, but there is a wider financial universe out there that financial regulation covers in some detail. What are the three things that you think, across the financial system, we should all be most worried about at the moment—the things that will hit our constituents in the pocket and make them poorer?

Professor Moloney: The consumer perspective is very important to me. It is something I have worked on and engaged with, because this is where it goes live. It really is. I have three things, maybe. One is operational risk. The failure of a major system in a major clearing bank is something to worry about. We have a whole architecture built around this to make sure that does not happen, but that is something that the industry and the regulator will always need to be attentive to.

I think this for a couple of reasons. First, there is a macro issue here that, when a major bank is not able to function with its core services, that is a really big problem. This issue starts coming up more in the agenda. When I was a student, my parents at 3 pm on Friday would put whatever it was—I think it was £50 for the week—into their bank branch and I was at the other end with my ATM card, pulling it out on a Friday afternoon for the week ahead. If you play that forward, you have small companies making payroll. You have people perhaps paying for their groceries for the week ahead in cash, so there is operational risk. There is a system. I am not apocalyptic about this. We have a very strong system and an operational resilience regime, but that complete attentiveness to operational resilience is the thing I would very much keep in my head.

The second thing is a bit more through the whole financial system. One really big change in what the financial system looks like since the financial crisis has been the really big growth in finance outside the banking perimeter. I think that one of the numbers is that something like $220 trillion now sits in the non-bank side of the house, so about half of the global financial system is not from a bank. For good reasons, that is regulated differently. They are not deposit takers. There are perfectly sensible reasons for why they are regulated the way they are. However, it has become massive. The interconnection between the two, so banks lending into money market funds, private equity funds or hedge funds, that sort of connection between the two systems, is completely monitored and policed. This is where the system-wide stress test has been incredibly important.

The third thing comes from my experience as an academic. It has to be AI. The whole world of AI is certainly transforming universities and how we think, teach and equip our students for the future. It is changing how the next generation of bank employees will think, how they engage with information and how they think about risk. They are the three things I would absolutely keep in mind that may shape and reshape how the financial sector works.

Q16 **Lola McEvoy:** Good morning, Professor Moloney. Your appointment hearing comes at a time when regulators are firmly in the spotlight. The Prudential Regulation Committee has a secondary objective, as we have heard, for the UK economy's international competitiveness and growth over the medium to long term. The Prime Minister said recently, "For too long, the previous Government hid behind regulators—deferring decisions and allowing regulations to bloat and block meaningful growth in this country". How do you feel about that in the wider landscape of your appointment?

Professor Moloney: The regulators' work is entirely framed by legislation, so there is no inherent power for regulators. Regulators follow the mandate given to them by the parliamentary process. Again, FSMA is incredibly important there. There is a secondary objective on competitiveness and growth over the medium to long term, but I see no conflict at all between ensuring that secondary objective is attended to and ensuring a sound and stable system that supports growth.

The way I see it is that the way Parliament has spoken to the regulators is very carefully tiered. Soundness and stability is your primary objective. You are looking at a range of options to pursue that. Be attentive. Well, be more than attentive. You have to evidence and have a structural sense that you are supporting competitiveness and growth in so doing.

There is nothing to fear there. There are all sorts of ways one can see the PRA already tooling up to ensure it does that. It is completely doable. The lodestar all the time is safety and soundness. I think that it was back in 2013 when the PRA started to think about, "How do we facilitate smaller banks?" For a long time, the regulators have been thinking about whether we are adjusting and using our system appropriately for all sections of the economy. It is something not to be afraid of and the way it is organised ensures the PRA can keep focused on safety and soundness.

Q17 **Lola McEvoy:** In the international context, we have been seeing more use of executive orders over in the US. Why is operational policy independence important for financial regulators?

Professor Moloney: For regulators in pursuit of their mandates—that is something I am very conscious of. Once they have their mandate, the job of the regulator is to think long term. It is to take the long-term decisions, design the rules, use the evidence, be operationally independent from the day-to-day political context and have the courage of its convictions. We have been asked by Parliament to do a certain job. We will get on with it. We will do it with our evidence, experience and independence, which is why a regulator has the credibility to say to a bank, "No, we are taking this licence away" or "We are not doing this", secure in the knowledge that this is their job and it is one that they have to do.

The PRA communicates in a really straightforward way. In one of its documents, it says something to the effect of, "We will listen, reflect and be responsive, but, ultimately, it is not a negotiation". That is where that independence comes in, although always within that legislative framework.

Q18 **Lola McEvoy:** It is interesting that there is a tension between being governed by legislation without any powers yourselves and having to keep this independence. Are you excited or concerned? Where is the balance for you about the tension between going into this new role and the US and the UK's spotlight on regulators? I want to know a bit more about your analysis of what you are facing going into it.

Professor Moloney: It is an absolute privilege to have this role. It is a complete and utter privilege. The governance of the PRC, whereby it brings in external members, along with the senior leadership team at the Bank, is a really special thing to bring all that diversity of views, so I see it as nothing but a privilege. I see it as at a real inflection point. It is a really important point. There is everything you are describing, which is a very different world for regulation. Also, it is at a point in time where the PRA has been given this incredibly important power to adopt rules and to adopt those rules itself, with its legislative mandate, in a context where the world is changing. I feel a great sense of responsibility that I have legislation that is saying X and a world that is very dynamic, but I have a very clear mandate as to how I go about that, also with that security of the independence of the committee.

Q19 **Lola McEvoy:** How concerned are you about the potential fragmentation of international financial regulations? What would the impact be of such fragmentation on the UK, specifically with the US position?

Professor Moloney: This is a very interesting one. As I say, over the financial crisis, you got a real push towards standards and harmonisation. That is still very much in place. Those core principal standards are there. I do not see a sense of them weakening.

There is huge economic benefit from a level playing field internationally for international banks. The sector understands that. It is in everybody's interest not to have a race to the bottom or to be preferring certain actors. Global financial stability is a public good for the entire system. That is in the DNA of how regulatory systems work globally.

Having said that, it is a feature of political economy. You will get differences across the financial system. It is always ensuring that it is operating at a level where you are not getting races to the bottom. I see really no sign of that. One thing I often go back to is that the US has long had the toughest, most intensive financial regulatory system in regulation, but also in litigation. US consumers and investors take litigation a lot. It is a tough system and yet the biggest, deepest, strongest financial system in the world. There is a real sense of that across industry, politics and the regulators, so I will be hopeful.

Q20 **Yuan Yang:** Professor Moloney, in your questionnaire you mentioned that consumer and household interests were overlooked in much of the financial crisis era financial stability debates. I was wondering whether you could discuss that a bit more. What was overlooked and why do you think that was overlooked?

Professor Moloney: Sometimes in my work I talk about the consumer interest as being the Cinderella interest. It comes in late and then there is a big focus on it. I was very struck over that period. Inevitably, there was a huge focus on stability of banks, resolution and MREL, these really big, macro questions, and rightly so. That had to be done, but there is still a space where the household interest is there. Something that struck me a lot over that period was that we had expert groups and Europe had all sorts of hearings. You almost never had a consumer voice.

It is not that consumers would have a particular angle on risk-weighted assets. Of course they will not, but they will bring to it the real experience of what happens when it goes wrong. Having that infused into how you build policy is incredibly important. A lot of my writing was, "Yes, this is all very good. However, let's not forget why we are doing it". There was a governance issue. The consumer issues were not fully to the fore.

Then there was probably a secondary thing, which is that some big consumer files got really slowed down over that period. This is in the European context. One of the really big files that were being constructed prior to the financial crisis was a thing called PRIIPs, which is all about disclosure for retail investors when they buy investment products, so a very sensible piece of legislation trying to make sure consumers had proper information. It took about six or seven years to get through the process because everybody was focusing somewhere else. Maybe that is life, but we need to be attentive to it in terms of that consumer interest.

Q21 **Yuan Yang:** Do you see some of those concerns still present today in terms of the balance between client-facing regulation and consumer-facing regulation?

Professor Moloney: There has been a complete sea change there. That sense of the consumer, the importance of conduct and the importance of client-facing relationships has been rebalanced very significantly. That is very good. You can see it even in the prudential space as well, so something like the risk-weighted assets being sensitive to residential mortgages. There has been quite a big rebalancing there in terms of the household interest.

Q22 **Yuan Yang:** Right now, would you say that you are happy with the level of consumer voice represented in these regulatory discussions?

Professor Moloney: You can always do more. Absolutely, you can always do more. It is two things. It is almost getting into the mindset that it is not about what you get from the consumer. Very often, when regulators globally are doing consultations, there is a very natural sense: "We want to understand what is going on over there. Explain this. How does this inform our policy?" With the consumer debate, it is a little bit different. It is saying, "We want to hear from you how this impacts on you. We want you to realise you have a stake in this. There is a consumer stake in how we build regulation. Your voice matters". There is still a lot to do there in terms of reaching out and being proactive about bringing consumers into that space.

If I can be an academic for one second, there is a really big issue here, which is trust in institutions. Trust globally in institutions is weakening. That is a really serious issue for good governance. Part of ensuring we maintain that sense of trust in regulators and Government is that sense of engagement. Yes, absolutely, on governance there is always more to do.

Q23 **Yuan Yang:** Whose responsibility is it to do that more than is done today?

Professor Moloney: It lies with the regulators thinking about how they might do that. You see examples of this. I know that the Bank has a fantastic schools programme. That is something I would love to get a bit more involved with. It might mean thinking about ways you can reach certain major consumer stakeholders. The UK sector does really good work already. I would hope to bring an attentiveness to that. Is there more we can do? Are we doing as much as we can?

Q24 **Yuan Yang:** You mentioned also in your question the dangers of groupthink and discussions around the societal consequences of groupthink for the most vulnerable. We recently had the news that the PRA has decided not to introduce new rules on reporting diversity and inclusion metrics, which is something that this Committee has previously written about in our *Sexism in the City* report. I was wondering whether you wanted to comment on that decision.

Professor Moloney: I saw that a week or so ago. Again, I am external and I do not have sight on how the decision was made. I would say a couple of things. From what I saw about the decision, it seemed very sensible and logical. One point that was made was that there is other legislation being developed that will achieve a similar purpose as the reporting would achieve. That is really important. We all fit in a wider system. Are we doing our bit within that wider system and not duplicating? That seemed like a very sensible reaction.

There was a second thing that I noticed from the reasoning around it. Right now, the Bank has an attentiveness to reporting obligations. There was a logic of, "If it is happening over here already, does it really make sense there?" The other thing that I took away from it was the PRC stating, "We are looking at the impact of the bonus cap coming off and how that is impacting gender. We remain attentive to this in governance". In terms of the big outcome that this would have been directed to, which is about good thinking and safe spaces to work, I certainly got the sense that attentiveness to that would remain, while there were second thoughts on the particular reporting system.

Q25 **Dr Sandher:** Professor, I want to speak to you about climate action and, particularly, the role of the PRA around that. In your questionnaire, you spoke about how the PRA's supervision of climate risk is variable and more is needed. Climate change, of course, is recognised by the PRA as relevant to its primary objective. When it comes to that supervision around climate change or climate risks, more accurately, what specifically is lacking and why is that?

Professor Moloney: As I said right at the very start, so many risks are old risks and they recycle in new settings. This is a new one. The whole climate space is genuinely a new area for the industry and for regulators to grapple with. The way that the PRC is doing it is really very impressive. It was the first regulator to set out a supervisory expectation in 2019. That is a real benchmark for many regulators.

One thing that is very impressive is that it is doing capacity building. It is almost recognising, "This is really difficult. This is hard. We do not have the data. We are trying to figure it out". It is that sense of needing to evolve with the sector while staying ahead of it. It is leading the sector, in that it is saying, "We need to get to this place. We have a forum to help you think about this. We are developing our supervisory model and we are evolving as the sector comes up the curve".

These regular reports that you see from the PRC are very clear. They say things like, "We have made progress on governance, but we need to do more. We have made progress on this, but we need to do more". They seem to be particularly focused on scenario modelling. If something happens, how would you react? That that is really important. We are not saying, "You need to have the end state of the best possible risk management system now, but you need to get there and we will support you in getting there". It is a new risk and it is something that everybody needs to be very attentive to.

Q26 **Dr Sandher:** When you say more is needed, what you mean is that the PRA and the PRC need to keep moving further along the track they are already on, given that the risks are likely to evolve?

Professor Moloney: Yes, I think so. Again just from observing externally, this year they are going to reissue their supervisory expectation document. Again, that sounds very sensible to me. You are six years into this. There is a lot more data. We see a lot more about how banks are behaving. It makes sense to retool up, to look at the supervisory expectation document and to look at how things are going.

You see this internationally as well. The European Central Bank often says similar things—"We have done a lot, but there is more to do"—and really tries to keep everybody focused on this.

Q27 **Dr Sandher:** I am glad you mentioned the supervisory expectations. How should the PRA, especially with climate but also more broadly, update those expectations to ensure better compliance by firms?

Professor Moloney: One thing I like about the PRA's approach to this is that it is logical. It starts off with, "Is your board focused on this? What about your senior managers regime? Is everybody accountable where they need to be? Are your risk management systems operating correctly? Do you have the right disclosures in place?" and then, super importantly, When you are doing your internal capital assessment, are you thinking through your capital base?"

What I like about that is that this is a new risk, but this is the toolkit. This is not an extraordinarily new set of tools. Banks know how to do governance, risk, capital and so on. The tools that they are using are completely sensible. It is just about making sure they are working in the right space.

One of the really helpful things about the supervisory expectations document is that it articulates this. It is really clear: "This is what we want you to do". It is not saying, "Climate is a risk, so look at it". It is really articulating, "This is what we need to see". Being very clear is very valuable.

Q28 **Chair:** Finally, I just wanted to pick up on some of the points raised by Dame Harriett. You have extensive experience working in EU institutions. We are facing an interesting challenge now. We are out of Europe. We have what is going on in America, as Dame Harriett and Ms McEvoy touched upon. Given that expertise, the desire by Government to see growth and the fact that London is an important financial sector, where should the PRA be leaning? You were very clear on Basel, when pushed, that we should adopt out of sync. Is there a risk to going out of sync? Could that help with growth?

Professor Moloney: First of all, my sense as an external member is that all the UK regulators have very good relationships and very open communication lines back into Europe, which is good, as well as internationally. The international engagement of all the UK regulators is very strong. That is really to be welcomed.

The great opportunity for the PRC is to build a more British style of regulation. It has new rulemaking powers. One of the most important things that it has—it is a real benchmark for regulators, actually—is a very clear policy on how and when to revise rules. There is an almost formalised process for looking at things and changing them.

With my academic head on, if you like, something I write about quite a bit is how that is inevitably more difficult for Europe because it is a very harmonised system with very particular structures. It is just harder.

Q29 **Chair:** Is there an opportunity for the UK?

Professor Moloney: Yes, there is. The UK can now be very nimble and agile in adjusting its rules, whether that is to deal with an emerging risk, to make them more proportionate or to flex them in some way. This is a very significant and exciting time for UK regulation.

Q30 **Chair:** Finally, Ms Yang talked a bit about transparency. Obviously, the PRC does not publish its minutes and so on. You are an academic. You talk about this a lot. Have you thought about, when you are talking in public, whether you will talk about the PRA? You have been very open with us today in this hearing, but quite often we do not hear much from members of the PRC for obvious reasons. How do you plan to manage that interface between your academic role, where in some respects you are a commentator as well as an actor, and your membership of the PRC?

Professor Moloney: I will be in two different lanes. My academic work will be entirely separate. I will be incredibly conscious of the responsibilities associated with my role. There will be no read-across from one to the other at all.

As a member of the PRC, I very much take my lead from this Committee and from Parliament. I would welcome any engagement that you would find helpful. I see that as a very serious responsibility. I will take my lead from my colleagues at the PRC in terms of how we go about that engagement.

I hope I will be a helpful and useful voice around the table when it comes to thinking about how we can best achieve the accountability of the PRC in open fora.

Chair: Thank you very much indeed for that. Thank you for your time, Professor Maloney. We now need to go into private session to agree what we would like to say about your appointment. We should stress to anyone watching that we do not have a veto over Professor Maloney's appointment, which she may be relieved to hear after an hour of questioning, but we are able to make comments about her appointment based on her answers to our questions today. Thank you very much indeed, Professor Maloney.