HOUSE OF COMMONS

Treasury Committee

Oral evidence: The economic and financial costs and benefits of UK membership of the EU, HC 499

Tuesday 8 March 2016

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Watch the meeting

Members present: Andrew Tyrie (Chair); Mr Steve Baker, Mark Garnier, Helen Goodman, George Kerevan, John Mann, Chris Philp, Mr Jacob Rees-Mogg, Rachel Reeves, Wes Streeting

Questions 992 -1128

Examination of Witnesses

Witnesses: **Dr Mark Carney**, Governor, Bank of England, and **Sir Jon Cunliffe**, Deputy Governor, Financial Stability, Bank of England, gave evidence.

Q992 Chair: Thank you very much for coming to give evidence to us this morning. There is a gilt auction this morning and there are a number of questions that it is conceivable could have some bearing on that, so we will make sure that those are asked after the auction has finished. Can I begin, Governor, by asking you to explain, clearly and succinctly, what you think the scope and limits of the Bank's role are in the public debate about this referendum?

Dr Carney: As you are well aware, the Bank has a responsibility for promoting monetary and financial stability in the United Kingdom and, subject to those two primary remits, to support the Government's economic policy. That is, in effect, the strong and sustainable balanced growth. As the PRA, we have a secondary remit to facilitate competition.

Our comments around these issues, and I will summarise them in terms of the United Kingdom's relationship to the European Union, so the status quo and any changes to the status quo, are limited to how that relationship impacts those responsibilities, those remits. In other words, monetary and financial stability are the principles, subject to the secondary.

You asked a second part of the question, which is around limits. Monetary and financial stability are foundational. They are important determinants of economic outcomes. They are not the sole determinants of economic outcomes, so our comments and our analysis do not provide a comprehensive assessment of the economic case for and against any further status quo or any sort of change to the status quo with respect to the European Union. To state the obvious, economic questions are important questions in terms of the broader decision the people of the United Kingdom have to make, but they are not the totality of the considerations upon which people will reflect and make their decision on how to vote. We will not be making and nothing we say should be interpreted as making any recommendation with respect to that decision.

Chair: It is good to have that on the record. Jacob Rees-Mogg wants to come in on this point.

Q993 Mr Rees-Mogg: Thank you. I wanted to look at your approach in considering the risks of being in the European Union, but the slight absence of the risks of remaining in the European Union. Have you any thoughts on the risk from the financial transaction tax?

Dr Carney: In terms of the hierarchy of risks of remaining in the European Union, I would not put that near the top. To be clear, and I will answer the question, we do think there are risks from remaining in the European Union and risks particularly related to the development of the euro area. I am sure we will come to these questions, but how the institutions, the rules and the supervision around the euro area develop, and the increased harmonisation and integration that would be necessary, could impact our ability to achieve our core mandates and core remits.

To your question with respect to the financial transaction tax, our view, the institutional view of the Bank of England, is that any financial transaction tax supplemental to the stamp duty that exists here in the United Kingdom, as you well know, would be best pursued, if at all, at a global level, as opposed to at a partial level, just a European level, as opposed to a global level. As the case is today, what is being discussed is a subset of European Union members that would have, potentially, an element of extra-territoriality. That element of extra-territoriality is subject to legal challenge and, as I am sure you are well aware, that legal challenge cannot be formally pursued or pursued to its full extent until an actual directive comes into force. That was my understanding, as a non-lawyer, of the substance of the back and forth with the ECJ in 2015.

Q994 Mr Rees-Mogg: It is in the text of the agreement at the Council of Ministers recently that enhanced co-operation would in fact be encouraged. It is in the agreement that we have made; enhanced co-operation is advocated. I am just surprised, in your balanced approach, that you did not mention the financial transaction tax as a potential risk. This is not in either your speech from last year or the letter that you sent us yesterday.

Dr Carney: That is based on several points. One is that, in terms of a risk to financial stability, as I have indicated, and I should be clear, I do not view it as a first-order or even second-order risk to financial stability. It is an issue in terms of market functioning, but not in terms of actually imperilling financial stability. That is the first point.

Mr Rees-Mogg: I will come back, because I think you are answering the wrong point.

Dr Carney: I am not sure I am, because you are asking for a judgment.

Q995 Mr Rees-Mogg: Hold on just a moment. In both your speech and your letter, you also mention the costs of regulation and the FTT would be under that section, rather than the section you are answering to, so you are trying to answer for a different section. I want to pull you back to the full context of your letter and indeed your speech, rather than your narrowing it down.

Dr Carney: The first point is, as I say in the letter, a comprehensive assessment of the cost of regulation is not within the remit of the Bank of England. Financial stability and monetary stability are within the remit. I am, consistent with the letter, consistent with my response to the Chair and consistent with the framing of our report in October and my speech in October, limiting myself to answers that relate to our remit. Our remit relates to financial stability, not assessments of cost of regulation. Now, I can give some context on that but, if I may, with respect, the start of your question related to the financial stability implications of the financial transaction tax.

Q996 Mr Rees-Mogg: As I said, it related to looking at the risks of continued membership. To ensure balance with the Bank of England, it emphasises the risk of leaving, but also the risk of staying. It seems to me that your judgment, which may or may not be right, was that you do not consider this a significant risk, in spite of the encouragement for enhanced co-operation in the agreement made at the Council of Ministers and the fact that they have the numbers available.

Let us move on to the other risk within the document, to which you seem to make no reference in your letter. That is: "It is acknowledged that member states not participating in the further deepening of the economic and monetary union will not create obstacles to but facilitate such further deepening". In this agreement, we have given away a considerable amount of our ability to veto any treaty for fiscal union that may not be in our interests. Do you consider that a risk to the British financial system?

Chair: If you want to say something further on the first point, do, and then come to the second one, which is a very important one that has been raised in a debate in the House of Lords.

Dr Carney: It is only reasonable and I appreciate it, Chair, that I am able to complete my answer. The first is that we have made judgments in the report, cross-referenced in the letter, about the elements of the actual European regulatory compact, if I can use that term, which we think are imperfect or that potentially have implications for our remit, so the bonus cap, the treatment of triggers in AT1, a form of capital instrument, and the absence of macro-prudential flexibilities around Solvency II. That is our judgment and you can disagree with that judgment. But that is our judgment and we have been very clear about those issues. We have been clear to the extent that we have followed up on those issues and a host of other issues with the Commission, as part of their call for evidence in terms of the review of existing European financial stability and prudential regulations. We have identified a series of things; they are in the public domain.

In the hierarchy of those issues, the financial transaction tax falls quite low down for two reasons. First, it is an efficiency as opposed to a financial stability issue, in my judgment. You may disagree. Secondly, one has to make a judgment about the probability of it actually coming into force, as opposed to measures that are actually in force. Those are judgments. That is not ignoring the issue. We have been very clear about a series of issues with which we have some disagreement and would like to see changed, and have pursued avenues in order to have those changed.

Q997 Mr Rees-Mogg: It is surprising you do not mention it, in my view, but let us move on to the next question. It is the issue of our giving away, in the agreement, the ability to stop further closening of the relationship within the eurozone countries, which could have a significant disadvantage to the UK if it is not constructed properly, and the risks that that may have.

Dr Carney: It is in the interests of the United Kingdom that European monetary union is put on a much sounder institutional footing. That requires a greater degree of private and public risk-sharing. Completion of the banking union is part of that private risk-sharing. Elements of the capital markets union are again private risk-sharing. As many in this institution including myself have long advocated, an element of public risk-sharing, in other words through fiscal integration, is required.

Now, a common deposit insurance scheme within the euro area is one element of that but, actually, some element of a form of transfer union, in my judgment—and I am record on this on multiple occasions, including a speech I gave in January 2015 in Dublin on precisely this issue—is in our interests, in terms of completing monetary union and making monetary union more stable.

The key issue that the settlement—I will use that term—addresses is how there will be an interaction between the institutions of monetary union and those, particularly of the United Kingdom, that are never going to be a part of monetary union. Encouraging and recognising that there would be a greater degree of harmonisation within monetary union, I would advocate, is absolutely in the United Kingdom's interest, including the possibility, and I would say the advisability, of greater fiscal union for those countries in monetary union. That is in our interests. I will finish with this: to go back to our remit, that is in the interests of the financial stability of the United Kingdom.

Q998 Mr Rees-Mogg: Do you therefore think that any agreement they come to will be in our interests, because this is essentially giving them carte blanche?

Dr Carney: Does that give carte blanche? I will defer to legal experts on whether that binds.

Q999 Mr Rees-Mogg: The Government make a lot of this being a legally binding agreement. If it is legally binding one way, I assume that it is legally binding the other way.

Dr Carney: The areas of the agreement on which, not surprisingly, we have focused have been the sections on economic governance and the associated so-called emergency brake, which I am sure we will come to. Those elements of the agreement are legally binding, in the judgment of counsel. I am not a lawyer and will defer to the many experts on this, but the judgment, including I believe in terms of the advice to the Commons, is that those elements are legally binding. Those elements of the agreement are not in conflict, again in the judgment of lawyers, with the existing treaties, and so they have so-called interpretative effect. I am sure you will have a chance to explore that in greater detail.

Q1000 Mr Rees-Mogg: I may have a question for you on that later, but I want to move on to your relationship with the Government in the statements that you are making and what influence or not the Government may have. The Prime Minister told the *Sunday Post* that he was "sure" that the Governor "will have something important to say". How could the Prime Minister be sure?

Dr Carney: That is a question for the Prime Minister. I have no idea.

Q1001 Mr Rees-Mogg: You think that the Prime Minister was speculating about what the Governor of the Bank of England was going to say. That is unusual in the relationship between the Prime Minister and the Bank of England.

Dr Carney: I would say that, in my time as Governor, I have conversations on occasion with the Prime Minister. Those conversations tend to be about the most important economic issues facing the country and the global economy, but that is the relationship that exists.

Q1002 Mr Rees-Mogg: You are not denying that you have had conversations with the Prime Minister about what you might say in relation to the European Union.

Dr Carney: I have not had conversations with the Prime Minister about what I might say about the European Union.

Mr Rees-Mogg: What about what you will say? This is very important.

Dr Carney: What I will say. I was repeating your phrase, but it is what I will say. As you would expect, in the context of the subset of issues that the Government were negotiating as part of this new settlement, I had conversations with the Prime Minister and conversations with the Chancellor, entirely consistent with what we have put in the public domain in terms of our concerns about the future evolution of the European Union. To be more precise, and I am sure again that we will have a chance to go into this in more detail, our view, again as expressed in the detailed report published in October, supplementary speeches and supplementary testimony, has been that with the current status quo we have the tools to deliver our remit.

The issue and our concerns were about the potential future evolution of the euro area and how that could affect our tools. I have had detailed conversations with the Prime Minister about those aspects and those aspects are concerns that are very clearly in the public domain, in my view. They are reflected in the economic governance section of the settlement. I am sure you will go into the detail around that.

Chair: Maybe one last question at this stage, Jacob.

Mr Rees-Mogg: I have a bit more if I may, but I know you want to come on to some sensitive issues later.

Chair: Just one more for the time being.

Q1003 Mr Rees-Mogg: I want to look at the speech that you gave last year, because it seems to me there were some non-factual elements in it. That is not to say that they are wrong, but they are your opinion of our relationship with the European Union, rather than established: particularly this argument that EU membership reinforces the dynamism of the United Kingdom economy, when the growth rate of the economy was actually faster from 1948 to 1973 than it was from 1973 to 2012. I just wonder whether you were saying mildly pro-EU things.

Dr Carney: In terms of the UK growth rate, obviously—maybe it is not obvious—like all major advanced economies it experienced more rapid post World War II growth than subsequent growth post the oil shock of 1972-73. That is a common phenomenon. In terms of the relative performance of the UK economy, you see two pick-ups. I will refer to the work of Nick Crafts and others, but there is substantial fact-based evidence for this that is entirely consistent with that statement. You see two accelerations, first upon accession to the then European Community, and then in the early to mid 1990s, upon the formation of the single market. You see both of those elements.

The second point is that the speech is based on the report, which goes into much more detail. Obviously one has to summarise for a speech. There is an advantage to having 100-page reports, with details, cross-references and analysis. One sees, in terms of the trade performance, particularly the foreign direct investment channel, where the UK is the largest recipient of foreign direct investment in the European Union, bringing with it technology transfer. It is one of the largest recipients of skilled labour.

Chair: I can tell that Jacob is pregnant with a rejoinder, and I would like him to get it in now.

Q1004 Mr Rees-Mogg: On the foreign direct investment figure, you refer in your speech to it taking off once the single market was created, but you know perfectly well that, before the single market was created, the UK was getting more foreign direct investment than a number of other EU countries put together. To claim it from the single market is not accurate.

Dr Carney: I disagree, respectfully. First off, there is the relative performance within the single market and relative to other major advanced economies. Secondly, there is the advantage of speaking to major businesspeople, understanding the reasons for the investment in plant, equipment and activity in this country. For example, you are active in the financial services sector. As you would know, there is a reason why a more substantial proportion of global banks, internationally active banks, are headquartered in London than in any other European country or all other European countries combined. That is partly because of the cluster of expertise that is here but also, in many cases—and I have had numerous conversations with CEOs who have affirmed this—it is because of the passporting ability of this economy, in terms of its activities, being in London.

Chair: This really is the very last, and it is very quick with a quick response, please.

Q1005 Mr Rees-Mogg: This is what I think is doing your reputation and the reputation of the Bank of England harm. You are coming out with the standard statements of the pro-EU group. The figure for foreign direct investment in 1970 was that the UK received more than France and Germany combined, before we were a member of the European Union. We have consistently received more foreign direct investment. The statements you make about the dynamism of the economy could just as well refer to the reforms introduced by Margaret Thatcher. It is speculative and beneath the dignity of the Bank of England to be making speculative pro-EU comments.

Dr Carney: I am not going to let that stand. Let us take the example of trade.

Chair: If you could give a succinct response, I would be grateful.

Dr Carney: I will make a single response in terms of that. Take the example of trade, and you could make an argument in terms of the growth of trade pre and post.

Q1006 Mr Rees-Mogg: You make a specific argument on foreign direct investment in your speech, so you are now switching.

Dr Carney: There is a variety of channels. I am very confident about the grounding of the foreign direct investment point. I would add, just for absolute completeness, that in the report we do our best to disaggregate foreign direct investment that is EU foreign direct investment versus that which is round trip through the EU into the United Kingdom for tax purposes, which is a difficult thing to be do. To be clear, we are surfacing all the issues.

In terms of trade growth, so trade growth between the UK and the rest of Europe, one should adjust for so-called gravity models. That is the weight of trade with your nearest neighbours. Is trade growing more than one would expect given the proximity of neighbours? Is there a greater effect? This is John McCallum and others' work on gravity. It is very relevant to all trade deals. What you see, and it is detailed again in the report, is that the growth of UK trade with the rest of Europe, arguably, not conclusively but arguably, because of the single market is greater than one would expect given the relative sizes.

Chair: We are going to move on at this point. You may get a chance for a rejoinder at the end of the session.

Q1007 Mr Rees-Mogg: It is arguable and the Bank of England should make it arguable.

Chair: Order, order. We are going to move on.

Dr Carney: I will make one last point.

Chair: You are going to make it very quickly, Governor, please, because we have been on this subject much longer than we had intended.

Dr Carney: The language we have used in the report and the language we use in the letter is careful. It is not conclusive. It is arguable.

Q1008 Chair: There are these long pauses between each word that do strike me, actually, as the efforts of somebody who might easily have made a career as a bomb disposal expert, but I am hoping we can move things on a bit faster than that for the rest of the session. I want to take you back to something you said earlier, when you said that financial stability in the eurozone is in the interests of UK financial stability. Of course, financial stability in the eurozone will depend on the achievement of common deposit insurance and the creation of a transfer union. On a scale of 1 to 10, what probability do you attach to that, 10 being achieved?

Dr Carney: With respect to common deposit insurance, it is obviously imperfect, but I would ascribe a 7 or 8 over time. In terms of a transfer union, I would put it at less than 5, certainly. This is the great challenge.

Chair: We may well not get this. Less than 5 is less than 50%.

Dr Carney: That is why we need to have flexibility.

Q1009 Chair: The point that has just been made is that there are also risks to the eurozone, which are quite powerful risks. That is a point that needs to be made forcefully by the Bank.

Dr Carney: We have made it forcefully, which is why, in assessing the status quo, we have made a point of saying that we need to retain macro-prudential and prudential supervisory flexibility. It is also the reason why I warned, in the Dublin speech, about these risks to the euro area. It is also one of the reasons why we have persistently seen global risks, which include the risks from the euro area, as some of the biggest, if not the biggest, financial stability risks to the United Kingdom. We do not shy away from these issues. They are fundamental and serious issues.

Q1010 Chair: We will leave that minefield for the time being. We may come back to it later. Sir Jon, just for clarity's sake, for those of you who do not know much about Sir Jon, you have spent half a lifetime in this field negotiating these things. You are a former Sherpa. You have a particular unique expertise to bring, in being both the Deputy Governor of the Bank and formerly right at the heart of our relationship with the EU, on behalf of the Government in various capacities, including the most senior and the most important. What have we got from this deal, in a nutshell?

Jon Cunliffe: From the Bank's perspective, the agreement is very important. I would say that it is both significant and material, and I would concentrate, from the Bank's perspective, on section A around economic governance, which is part of the international law decision.

I would just go back to the point the Governor made: the conclusion we reached in the Bank's report about the impact of the European Union on our objectives was that, with the reformed institutional framework in the UK and the reformed legislative framework for regulation of the financial sector, we had the ability to deliver financial stability in the UK, which is our objective. Going forward, we raise concerns about how the future evolution of that regulatory framework will develop, given the necessary integration that I hope will take place within the euro area, particularly in this area of financial stability. There were really two parts to that. One was that the integration of the euro area might require more harmonisation than is necessary for the single market and that could damage the flexibility that we need to deliver financial stability.

Chair: We will come back to this area, but I was just trying to get you to put on the record the Bank's view of the upside from the deal.

Jon Cunliffe: The upside is that we have recognition in the settlement; first, of the need to respect the rights and responsibilities of non-euro members; secondly, that we may need less harmonisation within the euro area; and, thirdly, that the institutional responsibility for supervising financial stability and financial firms, for non-euro members, is a matter for their authorities.

Q1011 Chair: In the letter that you have just sent us, which we have not had very much time to digest, since we did not get it until after lunch yesterday, quite near the beginning, it says that it provides additional tools that will "help safeguard the Bank's ability to continue to achieve its statutory objectives". Why did you add the word "help"?

Jon Cunliffe: We have tools already and the additional tools would be the ability to have European legislation in this area that differentiates between—

Q1012 Chair: Do these provisions, these principles, give you adequate safeguards?

Jon Cunliffe: The principles in this agreement will guide the development of the future framework.

Q1013 Chair: Was that a yes or a no to that quite straight question?

Jon Cunliffe: If the framework develops in line with these principles, yes.

Q1014 Chair: There is more work to do. We will not know until this framework is translated into a treaty.

Jon Cunliffe: Mr Chairman, to be clear, my point was not about whether it goes into the treaty or not. My point was that these principles should guide the future evolution of the European Union's regulatory framework for financial stability and financial services. That is what is important for us. It has an impact before it goes into the treaty. Clearly, once it goes into the treaty, it will have a bigger impact.

Q1015 Chair: Let us go into a bit more detail. You mentioned that the key safeguards lie in section A and I would like to take you to the safeguard mechanism itself, which is in annex 2, as I am sure you know, and which is described as a "procedural mechanism". I would just like to clarify a few things about this procedural mechanism. Unless I have got it wrong—I have the text in front of me, but you have been interpreting these texts and indeed helping write them for perhaps upwards of a quarter of a century—this provides for a discussion, does it not, and no more than a discussion?

Jon Cunliffe: I think it provides for more than a discussion. It provides for an agreement by the member states that they will make all efforts to find a way of resolving—

Q1016 Chair: Is it a discussion backed by all efforts?

Jon Cunliffe: There are many discussions in the European Union.

Q1017 Chair: There are some discussions that take place without people making all efforts.

Jon Cunliffe: There are many discussions that take place without people making reasonable efforts, I am afraid.

Q1018 Chair: We can hope for reasonable efforts, but not unreasonable ones. There is quite a lot riding on this, is there not?

Jon Cunliffe: There is.

Q1019 Chair: Where is this discussion taking place? That seems to be another important question. As I understand it, it says, "The Council shall discuss the issue". That is Clause 1 of Article 1. That must mean Ecofin, must it not?

Jon Cunliffe: It is the Council of Ministers and for this it would be Ecofin.

Q1020 Chair: In Ecofin, just tell me if I am wrong, we are vulnerable to countries bringing measures under single market provisions and they will normally be covered by qualified majority voting. Under that system of voting, just for the clarity of those who do not follow these things so closely, the eurozone has an in-built majority, does it not?

Jon Cunliffe: That is correct.

Chair: All we are going to do is have a discussion in Ecofin followed by a vote that may take place on a single market provision, under QMV, in which the UK may be outvoted. Have I got that wrong?

Jon Cunliffe: No, that is right. All financial regulation is on a single market co-decision qualified majority basis.

Q1021 Chair: Is that the kind of safeguard you like when you are going into battle?

Jon Cunliffe: First of all, the decision gives our Minister and others in Ecofin—

Chair: For those who are not watching this session, you now have a broad smile on your face. I hope that was not triggered by anything going on at this side of the table.

Jon Cunliffe: I think it is a real commitment. It is not possible for Ecofin to ignore that commitment. This legislation is decided by a qualified majority. Those parts of the treaty are not changed by this agreement. I would also say that the safeguard mechanism is one part of this.

Q1022 Chair: We will come on to other bits in a minute, if we may. I just need to concentrate on each little block of this, one by one, just to be sure of what we really have. I also want to clarify one other key issue. It goes on to talk about the role of the President of the Council. I am talking here primarily about Clause 3 of Article 1, which I am sure you also know so well you do not need to look up, but I am giving you the chance if you want to. In that, as I understand it, a discussion at the discretion of the President of the Council at the time may be brought on the issue to the European Council. Is that correct?

Jon Cunliffe: That is correct.

Chair: But it may not. It may or it may not be brought by the President, and it is at his discretion.

Jon Cunliffe: It is one of the ways in which the President can try to resolve the problem. It specifically references taking it to the European Council.

Q1023 Chair: If he chooses not to take it to the European Council, he need not.

Jon Cunliffe: Any member state can request for something to be on the European Council agenda. It is in Section E of the agreement as well.

Q1024 Chair: That is a request, is it not?

Jon Cunliffe: Yes.

Chair: It is not a right. There is a huge difference, I think you would agree, between a request and a right.

Jon Cunliffe: In the context of the European Union, I would find it difficult to imagine, if a member state raised a concern on this agreement and wanted it discussed at the European Council, that it would not be discussed at the European Council.

Chair: In all your years of experience, you have never known that to happen.

Jon Cunliffe: I have never known, when a member state raises an issue of fairly fundamental significance, which a breach of an international law agreement would be, for the European Union not to discuss it, if that is what the member wants. No, I have never known that.

Q1025 Chair: The request is not really a request as set out in section E. Really that word should be a "right".

Jon Cunliffe: The reality is that, if a request was made on a breach of this agreement—

Q1026 Chair: This is not a breach of the agreement. There would have been a discussion by this stage and then everything would have proceeded exactly as this agreement says. The President would then have taken a view, exercising his discretion, as a consequence of this word "may", which is in the agreement.

Jon Cunliffe: I would have thought, if a member state brought a breach of this agreement to the Council, the Ecofin, and if it was not resolved at the Ecofin and the President of the Ecofin decided not to refer this to the European Council, and that member state then went to the President of the European Council and said, "This for me is a fundamental breach", I am pretty sure that that would be discussed at the European Council, if only because a member state could bring that to the European Court of Justice.

Q1027 Chair: That is your personal view and you are pretty sure. You are saying it is justiciable, and the justiciability will presumably hang on this clause about whether the President has been through and exhausted all the remedies set out. If there has been a discussion and if he has taken all reasonable steps—we have had a discussion about reasonableness—then there will be scope for justiciability. I think you are agreeing with me, are you not? As you put it, you would have thought, you would expect, but you are not saying, are you, that in these principles the UK acquires a right to take this issue to the European Council?

Jon Cunliffe: That is correct; there is no legal right in here.

Q1028 Chair: In which case, in the Cabinet Office's own document on this, which I am sure you have also seen, I take you to paragraph 2.31; unusually, on this rare occasion, you might need to look it up. That says, Sir Jon, that if the UK believes that the principles are not being respected, we can unilaterally take the UK's concerns to the Heads of State in the European Council. That is not correct, is it? You have just yourself told us that it is not correct.

Jon Cunliffe: We can unilaterally request it to be on the agenda, but we can also unilaterally take it to the Ecofin, to the Council of Ministers.

Q1029 Chair: I think we have had a good look at this safeguard mechanism and, I must admit, I would not want to rely on it myself on a dark night. I do not know how you are feeling about it.

Jon Cunliffe: I actually think it is quite powerful.

Q1030 Chair: Can I look at another issue, which is also in annex 1, which is the possibility that there has been an extension of competence of the Union in this agreement? This might come under the category of the risk of remaining in the EU. The substance of the principles will be incorporated into the treaties, will they not? But, if you look carefully, you will find that there is a reference to Union competence, Union powers, in the field of financial stability. They are not eurozone powers, but Union powers. That looks new to me. Do you have a view on that?

Jon Cunliffe: The European Union has taken action on financial stability grounds in a number of pieces of legislation, and it has done that on the legal base for the single market for the establishment of the functioning of the single market.

Q1031 Chair: It that through the back door?

Jon Cunliffe: The argument, which is set out in the legislation, is that for the single market in financial services to function, because the powers are for the establishment and functioning of the single market, you need to have financial stability, because the market will not function without financial stability. That has been the basis for much of the legislation over the last five years certainly. There is no specific treaty base for action on financial stability.

Chair: At current?

Jon Cunliffe: At the moment.

Q1032 Chair: What about this paragraph in Clause 4 of annex 1?

Jon Cunliffe: The paragraph there recognises that the Union has taken action for financial stability, because that is necessary for the single market. As I say, there is no treaty base specifically on financial stability.

Q1033 Chair: You do not think this is competence creep.

Jon Cunliffe: I certainly think there is an argument that the single market in financial services requires financial stability. If we get to the issue of the financial stability of the Union as some sort of separate issue, then that would be a change that would need to be reflected in the treaty at a later stage.

Q1034 Chair: The point that I am trying to get to is that a key ingredient of the Bank's requests in these negotiations, as set out in your October 2015 paper, which was a very important paper and a very interesting paper, was that the Bank wanted to ensure financial stability would be a matter for the UK. We have a clause that says that, but we also have clauses that seem to suggest that the Union is acquiring responsibilities and powers in this area, and there is scope as a consequence of these principles, which will be put in due course into treaty form, of entrenching de facto, perhaps by the back door through the single market, those actions and powers into what would amount to a new competence for the EU, not for the eurozone but for the EU, in the field of financial stability.

Jon Cunliffe: First, I would say that that first paragraph of principle 4—

Chair: Helps?

Jon Cunliffe: It puts down, in an international law agreement, and it is intended in the treaty at a subsequent stage, something that has not been said before, which is that these issues for non-euro member states are matters. That is enormously valuable. This goes back to my material and significant point.

Chair: You summarised that at the beginning.

Jon Cunliffe: That is enormously valuable, because that has not been said before, whereas the financial stability of the European Union has been said before. It is in most of the recitals of the legislation of the last five years. On the second point, when these things come to be put into the treaty, then these questions of whether the financial stability of the Union is a thing that exists outside of the needs of the single market will have to be resolved.

Q1035 Chair: That is an area that is unresolved and might be a source of concern.

Jon Cunliffe: Yes.

Q1036 Chair: Yes, you agree. I have two other areas. Could all colleagues and the rest of the room please turn off all their electronic devices? There is also the caucusing issue. We have protection in the EBA, as I understand it, through the double majority voting mechanism. That looks pretty robust to me and you are nodding your head in agreement, but it is only robust while we have four fellow non-eurozone members. Is this not correct?

Jon Cunliffe: That is right, yes.

Q1037 Chair: When we get down to that, we are very vulnerable to a review of all this, are we not? Just answer that question. I have one more question.

Jon Cunliffe: That is the position of the double majority.

Chair: That is correct, is it not?

Jon Cunliffe: As long as there are five non-euro members, the double majority continues. At the point when you drop below five, the Commission then has to produce a report and recommendations, which from recollection, but I would have to check, can go to the European Council in the end, if necessary.

Q1038 Chair: This goes to a review, and the point I am trying to get at is that we have what looks like pretty reliable, if not copper-bottomed, protection at the moment, but we might not have it if we get below five. Is that correct?

Jon Cunliffe: I think that is right. Can I make one observation about that?

Chair: By all means qualify it.

Jon Cunliffe: It is not a qualification; it is an explanation. It is that I think it is right for us and necessary for us to ask that our rights and responsibilities as non-euro members are respected. On the other hand, if you allowed that double majority to go down until there was one member left, then effectively you would be giving that one member a veto that nobody else had. In trying to reach a balance between ensuring that there was no caucusing and giving some member states more influence and more power in the process than other member states, this was the balance reached.

Q1039 Chair: Does this agreement provide any additional protection from caucusing in the EBA?

Jon Cunliffe: Yes. This agreement takes a different approach.

Chair: I understand that. I want to home in on this caucusing point.

Jon Cunliffe: It is an additional agreement, because it does not actually focus on the method by which a non-euro member state is disadvantaged. It focuses on the outcome. That is an important additional protection.

Q1040 Chair: These exchanges have gone on for some time and I just want to go to one last area, which is what I have actually described, as it is something I have written about, as the ratchet and reversing the ratchet of legislation in this field. I note that, in your letter, I think on page 14, you discuss this. The problem with what we have at the moment in these agreements, it seems to me—and I want to know whether you agree—is in annex A. Your view is that this protection that has been added will not be worth much unless the review process of the existing acquis is conducted independently of the Commission. Is that correct?

Jon Cunliffe: I think that is right. To ensure that you have an effective review of the acquis, you really want to ensure that the players that have an interest in the acquis—

Chair: They have a vested interest, the Commission. They make the rules. They initiated the rules.

Jon Cunliffe: Some independence is necessary. How that independence is achieved can be done in different ways. The Commission declaration on establishing the subsidiarity burden and reducing mechanism does not go into details.

Q1041 Chair: It is a bit more than that, is it not? It does not have any independence. It is the Commission keeping its hands firmly on those brakes.

Jon Cunliffe: It would be possible to set it up in a way that, even though established within the Commission, there is independence there.

Chair: That is a very interesting thought and I realise that it may be frustrating for you, but I would be very grateful if you could set out, in a few paragraphs in due course, rather than prolong the discussion now, how the Commission might achieve that independence within the framework that has been established here.

Q1042 John Mann: Governor, how many jobs will be lost in this country if we leave the European Union?

Dr Carney: Mr Mann, we have not conducted a comprehensive economic assessment of alternative relationships with the European Union. I will refer to my comments at the start, in terms of the limits of our analysis, limiting it to financial stability, monetary stability and our secondary objectives.

Q1043 John Mann: You are saying that you do not know or that there will be jobs lost, but you do not know how many.

Dr Carney: I am saying that we have not conducted that analysis.

Q1044 John Mann: In your remit is inflation. What will the impact of leaving the European Union be on prices?

Dr Carney: There can be short-term implications for activity in the United Kingdom and therefore for pressure on prices. There are potentially countervailing forces. There could be lower levels of activity because of the degree of uncertainty that could affect investment and household spending. That is a reasonable expectation during a period of uncertainty. On the converse, there could be movements in the exchange rate, which would push up on inflation through normal exchange rate pass-through, and the Bank would have to take an assessment of those forces and their likely persistence in terms of managing monetary policy to achieve the inflation target.

I would make this basic point: that we have the ability to achieve the inflation target today and we would expect that, irrespective of the relationship with the European Union that existed, if there were a vote to leave the European Union, we would have the ability to achieve the inflation target over time, given the tools and the operational independence that we have.

Q1045 John Mann: Wages is an issue you have raised a lot in the last year. What will be the impact on wages in this country of leaving the European Union?

Dr Carney: Again, I would say that, to answer that question and to provide a perspective on it, we would have to conduct a comprehensive review of the economic impact of leaving, which is not something we have done and is not something we intend to do, given our focus on our remits of financial stability and monetary stability. We can sketch out the broad channels that could impact financial stability particularly, given the comments I have just made on monetary stability.

Q1046 John Mann: We could summarise, then, that what the Bank of England is saying, over the next few months, is that it does not have a view on whether there will be an impact on jobs, on prices or on wages, when people make a decision on staying in or leaving the European Union.

Dr Carney: That is right. We are not forming a view, because it is outside our remit. We are not forming a view on the economic implications of leaving the European Union, if that were to be the case. We can inform a discussion about the potential financial stability implications of a decision to leave, in both the short and longer terms, and we can obviously take mitigating actions particularly to manage those short-term issues. That is the extent of our analysis and our commentary. It is a fairly large extent, but it does not extend to the very fundamental bottom-line issues that you are raising.

Q1047 John Mann: Anyone who cites you or the Bank of England in evidence in relation to those issues would be doing so invalidly, then.

Dr Carney: In terms of the longer-term impacts, yes. Can one take a view in terms of shorter-term potential financial stability issues and what impacts they could have in the short term? The "short term" is an elastic term in this sense; I would define "short term" with respect to this issue as the period of uncertainty that would follow a vote to leave, if one were to happen. It is the period of uncertainty over the definition of the new relationship with the rest of Europe. One could be informed by our comments about financial stability and the potential impact on jobs, wages, house prices and other things. To be clear on your question, when one asks about the longer-term economic impact of a vote to leave, we have not prepared an analysis of that and we have no intention of preparing an analysis for that.

Q1048 John Mann: I take it from your answer that you are comfortable in your ability to handle the situation whatever the decision made by the British people.

Dr Carney: Absolutely, we will do everything in our power to discharge our responsibilities to achieve monetary stability and financial stability. In terms of shorter-term financial stability issues that could arise, we can mitigate those. It is analogous to having a shock to prices, a sharp fall in commodity prices or some other sharp development that could impact the path of inflation. We can take action, over long and variable lags, on the implications of those actions in order to get inflation back to target.

With respect to financial stability, what we have been doing is to build resilience in the core of the system. There are certain measures we can take in the short term to support the functioning of the core of the financial system. That is not to provide a blanket assurance that there would not be issues in the short term, with respect to financial stability. That potential reduction in financial stability could be associated, in fact normally would be associated, with poor economic outcomes, as we have seen in the past.

Q1049 John Mann: Your paper has a line in it eulogising the role of the European Union in terms of the adoption of new technologies in this country, on page 3. As far as I could see, at the moment, we are not leading and neither is anyone in Europe on broadband technology. Sir Tim Berners-Lee invented the internet, but neither we nor anyone else appear to have create a Silicon Valley or equivalent. We are having to go to the Americans for our aeroplanes, not least military, because nothing has been developed either in this country or indeed in the European partnership. That seems to be rather overstating the case that, in some way, the openness of the European Union has had this significant impact on innovation and new technologies. What is your evidence base for citing that?

Dr Carney: I can give you anecdote and then I can you broader. In terms of anecdote, in the past two weeks, I have visited the Airbus facility in Broughton. Others could make judgments, certainly in terms of sales. It would be corroborated that that is the leading civilian aeronautic technology. For the wings and the skins associated with that, which are produced, there are a series of patents. As a product of research that is conducted in the United Kingdom, as part of an integrated European supply chain, it is precisely an example of the adoption and development of technology that is made possible through a single market.

There are broader issues in terms of relative funding of research and development and the application of patents in this country. There are challenges in the UK in terms of the productivity of this economy, which is why there is a broader effort across government to improve productivity, which will have to be sustained. But access to the single market provides the prospect of having economies of scale and scope to the application of those technologies.

Q1050 John Mann: In terms of this country, in industrial robotics and micro-technology, where we were the leaders, we have fallen well behind. Is this not rather overstating the case? In a whole range of technologies, we have fallen behind the rest of the world. I am therefore puzzled about why you are overstating the case in this paper.

Dr Carney: The question is whether membership of the European Union promotes the adoption of new technologies, whether access to the largest market promotes the adoption of those and whether the associated foreign direct investment that comes and is associated with that access brings technologies. It does not say that it is the alpha and omega of technology adoption, of innovation and of productivity in the country; it is a question of whether it contributes to it. It is a reasonable judgment that it does.

Q1051 John Mann: You cite openness as being purely virtuous. To take the example of Cadbury, what is the benefit to Britain of Cadbury now being in foreign ownership?

Dr Carney: I will take an issue with the premise, first. We do not depict openness as an unalloyed good. In fact, our entire framework says there are three impacts of European Union membership on financial stability in the United Kingdom. The first is openness contributing to dynamism, in other words trade and foreign direct investment, as we have been discussing.

The second, though, is that openness means that you are more exposed to shocks. The most obvious issue here is about shocks that have emanated in the past and could emanate in the future from the unfinished business of European monetary union. We are absolutely clear about that and, in fact, I would say that we have been highly focused on that institutionally and doing what we can, including through this recent negotiation, in order to try to reduce the risks that are associated with that. The core premise is that we are not saying that openness is an unalloyed good. We are saying that membership of the European Union brings risks as well, and the principal risk—"risks" I should say, because there are more than one—is associated with the unfinished business of European monetary union.

The question you asked about Cadbury is a higher-order question about the general value of the market for corporate control. Is there value in having foreign ownership of businesses in this country? There has been a long tradition of openness to those types of transactions in the United Kingdom. In my personal judgment, I think it has served the country well. The issue in terms of adoption of new technologies and the development of new businesses is the ability to redeploy capital for people to have new opportunities for new types of businesses, including export businesses, to develop. There are areas in the industrial manufacturing sector that have declined. There are others that have risen. Aerospace is one.

Q1052 John Mann: We are in a situation now whereby, if we take energy, the European Union is reliant on Russia for its energy. We are reliant, or perhaps we are not going to be anymore, on the French state company for our energy into the future, if that deal eventually goes ahead, and yet the technological development has not happened. Some people would like openness to incorporate the National Health Service, for example. There are whole sectors where our technology and innovation have fallen behind, and you appear to be trying to wrap that up into a vague case for the European Union, which you now appear to be backtracking on, saying that openness is not specifically related to the European Union. Are you not, in this paper, rather overstating the case, even mildly, in terms of the benefits of openness and the benefits of technology, as they have applied to innovation and technology resident in this country?

Dr Carney: No, I disagree. In the background paper published in October, on which the letter is based—the letter effectively references that broader document, which goes into some detail—there is considerable evidence on this. I would just reinforce the point, which is that, from the very first page of that document, the first page of my speech—and it extends to the second page of the letter—we recognise that there are risks that come with openness. There are particular risks that come with openness to the European Union. Those risks persist. There has been some progress in developing European monetary union, but it is unfinished business. Much more needs to be done. In that context, even if it is done, but certainly a fortiori in that context, we need to maintain flexibility in terms of our macro-prudential and micro-prudential supervisory abilities, in order to deliver the remits that we have been given.

Q1053 Chris Philp: Sir Jon, I would like to develop further the line of questioning the Chairman touched on earlier to do with the enforceability of the renegotiation, before moving on. The renegotiation agreement is described as an "international agreement deposited at the UN". There seems to be some disagreement about whether or not the European Court of Justice would consider itself bound by this agreement or whether it would essentially ignore it and refer only to treaties. In your long experience of these matters, what opinion is the correct one?

Jon Cunliffe: I would just preface this, as my long experience is not as a lawyer and there are issues here of constitutional and other law. I know the Committee has had an opinion on this.

Chair: Lawyers are ten a penny, Sir Jon, but you are a rare beast.

Jon Cunliffe: I hope that gets read into the record, Mr Chairman. My understanding is that this agreement is binding. It says very clearly that it is intended to have interpretative effect, which means that the 28 member states of the European Union have said how they expect certain things to be interpreted. My understanding is that the European Court of Justice, under international law, will take that agreement into account when it interprets the treaties.

Chris Philp: Is it obliged to or may it, at its discretion, take it into account?

Jon Cunliffe: It is pretty much obliged by its own rules to take this into account, because you have the 28 members that have signed the treaty, or are underneath the treaty if you like, saying how they want things or expect things to be developed or interpreted. "Take into account" means that it will then judge that against other issues to do with the treaty and how the treaty works. There has been some experience of this in the Danish case in particular. I do not think the European Court of Justice can or would ignore this international law decision. That would form part of the material that it reflects when it reaches a view on the interpretation of the treaty.

Q1054 Chris Philp: When the Government describe the agreement as "legally binding and irrevocable", to quote the Prime Minister, would you concur with that opinion?

Jon Cunliffe: Yes. As an international law decision, it binds the parties. It binds the member states of the European Union. It is irrevocable to the extent that it requires unanimity to change or abrogate it, and therefore it cannot be changed without the agreement of all.

Q1055 Chris Philp: The parties have agreed to be bound by it. What is the remedy if one of the parties behaves in a way that is not consistent with the agreement?

Jon Cunliffe: This is the point I was making earlier. Apart from the safeguard mechanism on which I commented earlier, the remedy would be for a member state to go to the European Court of Justice, which in the end is the final arbiter of what the treaties mean and how they are applied, to say, "Here is the agreement. The member states of the European Union agreed it should have interpretative effect". I think the words that were used in the recitals of this about interpretative effect mirror language that the European Court of Justice has used before. "It is intended to have interpretative effect. We believe that it has not been properly taken into account." The European Court of Justice would then rule on that.

Q1056 Chris Philp: The agreement states an intention to incorporate some of the measures described at the next round of treaty change. Clearly, treaty change requires unanimous consent. In some cases, it requires ratification by parliaments or even by electorates. Were the treaty change not to happen in the future, would we have any remedy in that situation?

Jon Cunliffe: Were the treaty to be changed in future and these changes not to be taken into account, one would then argue that that is a breach of this agreement and it is a breach of international law. I do not know how long it will be before the next treaty change. The agreement here is to incorporate these changes when the treaty is next changed. I do not think there is a timetable in here for future treaty changes.

Q1057 Chris Philp: I would like to move on now to the question of the City of London, Governor. Financial stability is part of the Bank's remit, as you have said already. Would you agree that maintaining the success of the City of London and the financial services sector, which is more than 10% of our economy, contributes to the country's financial stability?

Dr Carney: Depending on how it is organised, I would agree. As you say, our responsibility is to promote financial stability. That is a building block for a sustainable and competitive City of London and financial services across the country. There have certainly been times in the past, as you are aware, where there has been a sharp growth of financial services in a way that is inconsistent with financial stability. We are focused on achieving those core two legs of the stool, if you will, which are micro-prudential stability, safety and soundness of individual institutions and then the overall macro-prudential stability. Competitiveness has to be built on that.

Q1058 Chris Philp: There have been some differing opinions expressed by people in the City about the likely impact of exit on the City's ability to prosper. Some people, for example Mike Sherwood at your old firm Goldman Sachs, have been quite outspoken in saying that it would have a detrimental effect on the City, and that Goldman Sachs and other institutions would choose to relocate some of their activity into the remainder of the European Union or indeed elsewhere. Could you comment on whether you think that analysis is justified?

Dr Carney: The analysis would turn on the relationship that was negotiated with the rest of the European Union, if there were to be a vote to leave. Fundamentally, in its broadest terms, the question is what degree of mutual recognition would be accorded to the then UK-specific oversight of prudential standards and standards of conduct, for a variety of firms, ranging from banks to insurers to asset managers and others; and whether or not a mutual recognition framework could be negotiated that would, as much as possible, replicate the current passporting regime. As one moves away from that, it is reasonable to expect that certain firms would take a view in terms of relocation.

Q1059 Chris Philp: Let us just consider the two possibilities: one is that there is some kind of mutual recognition; and the second case is that there is not some kind of mutual recognition. Presumably, in the event that there is mutual recognition replicating the current arrangements, there would probably not be much change. Why would there be? In the event that there is not mutual recognition of the kind we currently have, what sort of impact do you think that would be likely to have on the amount of financial business done in London?

Dr Carney: In terms of the former case, I should make the point that, to the extent that there is mutual recognition, the question is, in the narrow sense in terms of oversight of conduct and prudential regulation—the narrow sense in terms of the broader question, I mean, but the very large sense in terms of our responsibility—what flexibility we obtain to conduct our affairs differently than they are in the rest of the European Union. In other words, are we net takers of European regulation and approaches or do we have an ability to have flexibility?

Q1060 Chris Philp: Do you think we are currently net takers?

Dr Carney: No, I do not. In my experience, we have substantial influence. We do not dictate, but we have substantial influence over the development of European regulation. We do not always get what we want. The bonus cap is an example. The AT1 contingent convertible securities is another example. Certain aspects of Solvency II are other examples, where we had views, ex ante, and did not get what we wanted. We are working to try to get those to change.

There are very substantial significant counterexamples, for example the Bank Recovery and Resolution Directive, which in effect reflects an approach that was developed in the United Kingdom, not least by Members of this Committee, that was then exported and Europeanised. In other words, it is being applied across Europe and is very much to the benefit of the UK and the Bank of England, in oversight of financial stability, because we have passported European firms operating here, of a significant size. We want to know that they are in a position or they are moving to a position, as is more accurately said, where they could be resolved, if necessary.

We are not a taker at present. We are neither a taker nor a dictator. We have influence. In the main, as we say in the letter, our view is that, from a prudential perspective, European Union regulation achieves the highest international standard. There are some exceptions but, in the main, that is the case. If we were to be outside, the question is how much influence we would have and to what extent it would continue to meet those standards.

To go back to the genesis of your question, if we moved away from mutual recognition to a third-country relationship, what would the implications be and the scale of activity that would move? One would expect some activity to move. Certainly there is a logic to that, and there are views that have been expressed, publicly and privately, by a number of institutions that they would look at it. I would say that a number of institutions are contingency planning for that possibility, major institutions, foreign-headquartered institutions that have their European headquarters here. There would be an impact. I cannot give you a precise number in terms of institutions, jobs or activity, because we do not know where we would be on that continuum between a form of mutual recognition or pure third-country access.

Chris Philp: In the event that we did not get full recognition, you think there would be some degree of loss of business in the City of London.

Dr Carney: That is without question.

Q1061 Chris Philp: My final question is: were we to get divorced or were we to leave Europe, can you give the Committee an assessment of how likely you feel it would be that a form of mutual recognition could be achieved similar to that which we currently enjoy, or do you think it is more likely that it would be more third-country status? I realise it is difficult to be on one side of the fence, but I would be interested to know.

Dr Carney: The comment I would make is that mutual recognition arrangements are possible to achieve but, in general, they take a very long time to achieve. The challenge is the degree of freedom one retains in setting one's own path, rules and approach, and maintaining that mutual recognition. What would need to be thought through is what the relative benefits are of going for mutual recognition in order to try to preserve more of the activity that is currently based here but, in effect, ceding sovereignty over this aspect of our authorities. In our narrow world, again, it is relative to a much bigger question in terms of prudential and macro-prudential regulation and supervision, particularly where we do have flexibilities, which have just been reinforced by this settlement.

Q1062 Wes Streeting: I have a brief follow-up to Chris Philp's line of questioning. Sir Jon, reflecting on your experience as our man in Brussels, throughout our membership of the European Union, exercising influence that we have around the table, we have managed to secure arrangements that have protected the City of London from disadvantage and perhaps from the competition of some of our rivals within the European Union, like Frankfurt or Dublin. How likely do you think it would be, in the event of Brexit and the UK wanting to remain part of the single market, that we would be able to protect the City of London in that way? Do you think it is very likely that our competitors, in order to give us access to the single market, would see it as an opportunity to diminish the City of London for their own benefit?

Jon Cunliffe: The first point I would make is that a negotiation like this, or as this would be, has never happened before. One is in unprecedented territory. Greenland left the European Union many years ago, but it was a rather different thing in terms of financial services, at any rate. We are in uncharted water. It is difficult to point to the past.

I would think that, once we are outside of the European Union, if we wanted to remain in the single market for financial services, it would be a very big negotiating ask to also have the influence on setting the rules that we have at the moment. When you see how the EFTA countries participate, the Swiss and others, in the rule-setting, they are consulted but they do not have a say. It is theoretically possible that that say could be negotiated, but we are in unprecedented territory. It does not seem likely to me that we would be able to remain in the single market and have the influence on setting the rules that we have as a member of the European Union, if we were outside the European Union.

To the extent that we have been able—I would not say to protect the City of London, because what we have tried to do is protect financial stability and the UK's ability to have a very large financial services sector and maintain financial stability—my guess would be that we would not have the say over the setting of the rules that we have at the moment.

Q1063 Wes Streeting: I want to try to clarify, for the purposes of our inquiry, some issues around the regulatory burden of the European Union on financial services. Governor, as chair of the Financial Stability Board, you are uniquely well placed to clarify for us how much EU financial services regulation reflects globally agreed standards and principles or how far they diverge.

Dr Carney: I would say first that, in the main, the EU has implemented international best practice. It has influenced those international best practices. To follow up on the previous exchange, I would say that the UK has influenced the EU, which has influenced international best practice. This has been in our interest, given that we do host the leading international financial centre, which is a substantial multiple of our GDP. Our interests are in protecting the economy from that and making sure that the economy gets the benefits, without a potential cost of that. That is the first comment, just by way of context.

There are differences, derogations or additions to international standards. I am sorry to repeat this, but the bonus tax would be an example of where, for other purposes, a cap has been put in place that, in our view—and we have had discussions at this Committee before—

and the view of the Bank of England including the PRA, is detrimental to financial stability. It does not promote financial stability. In fact, it arguably increases risks. It does not adequately lean against misconduct. That would be an example.

The proposed financial transaction tax, as in our earlier exchange, would be an example of something that is not an international approach. From a financial stability perspective, it is not an issue that has risen to the level of the Financial Stability Board, because we do not see financial stability knock-on effects from that. We see competition effects and market functioning effects, and, ultimately, passed through costs to businesses.

It is too late for a short answer, but the short answer is that, by and large, international best practice is, as you would expect, heavily influenced by the EU, given the scale of financial services in the EU.

Q1064 Wes Streeting: I have quite a few supplementary questions. Let us try to get through some of these at a pace. Is it reasonable to conclude that the UK would have to implement the substance of most financial services regulation into domestic law, irrespective of the deal that we negotiate with the remaining European Union, in the event of Brexit?

Dr Carney: It is reasonable to expect that. We can only speak from a prudential and macro-prudential perspective. The best way to answer that question, and I will answer it succinctly, is that there are specific issues we raise in our report, which you can see. There are also issues that we have raised in Lord Hill's call for evidence on the current regulatory compact. There are a host of issues that we have raised for that. I would refer to those as the types of things we would like to see changed in Europe. If we had a free hand, arguably, we would change all of those. That of course would be subject to whatever type of mutual recognition arrangement we had.

Q1065 Wes Streeting: Let us just stuck with that point for a second. Outside the EU, which specific elements of financial regulation would you like us to jettison without undermining our compliance with international regulation?

Dr Carney: Can I answer it this way? Let me give you an example of something we think should be done within the EU. This is part of our public submission to the Commission and there are a number of other authorities on the continent that agree with this view, so it is not unique to the Bank of England.

We think a more proportionate approach should be applied to the application of Basel III. In other words, capital liquidity standards should not apply to all institutions, including the very smallest institutions in the United Kingdom, or in Germany or wherever, recognising that there is a big component of entirely domestically focused financial institutions. There is burden put on them in order to be in full compliance with Basel III. We think that there is a way to structure the application of Basel III in the European Union that exempts smaller institutions from those standards, which certainly applies appropriate prudential standards to them, but exempts them from full compliance with Basel III. I would highlight that one as an important one. Not least do we think we can fulfil our responsibilities with that, but it would also be a pro-competition measure domestically.

Q1066 Wes Streeting: In the event that we leave the European Union and there is divergence in our regulatory regime compared to the remaining European Union, is it reasonable to expect that compliance costs would increase for firms as a result of that divergence?

Dr Carney: It depends on the scale of activity of the firm. In other words, if it is a purely domestically focused firm, there are scenarios where compliance costs could go down if we were able to implement something that was more proportionate, in my example, and Europe did not. If a firm has an element of activity that extends from the UK to other European Union countries, then compliance costs would be expected to go up, all things being equal, because they would have to fulfil compliance responsibilities in both jurisdictions.

The loss of passporting rights is certainly a possible scenario. In fact, the weight is on the other side, to demonstrate that they would be maintained. The cost of establishing subsidiaries, if a firm did not already have them, potentially including, in terms of the application of this, ensuring that mind and management is resident in those subsidiaries, as would be the case at present in London, would add to the costs of compliance and of doing business, relative to today.

Q1067 Wes Streeting: I am really conscious of time, so have two final brief questions. First, you may have picked up from previous evidence sessions that one of the things we have been trying to do is to cut through some of the claims made by both the remain camps and the leave camps, particularly where facts and statistics are concerned. Do you agree that figures purporting to measure the cost of EU regulation, and the EU regulatory burden on financial services in particular, are largely meaningless without an understanding of the approach that the UK Government would take towards regulation in the event of Brexit?

Dr Carney: You have said it more succinctly, but we have words to that effect, in that we have not conducted a comprehensive assessment of the cost of EU regulation relative to a counterfactual that we do not know.

Q1068 Chair: Just to be clear, do you agree or disagree with the premise made in the question?

Dr Carney: Any calculation of the cost has to specify very clearly what the counterfactual would be.

Chair: I am just trying to clarify whether you are agreeing or disagreeing with Wes's view.

Dr Carney: I am agreeing.

Wes Streeting: I took it that he agreed, Chairman, obviously.

Chair: It is helpful, when dealing with bomb disposal experts, to be absolutely sure that the particular wire has been removed.

Q1069 Wes Streeting: Finally and on a similar theme, there are many instances, such as the ring-fence, the leverage ratio and the Retail Distribution Review, where the UK has gone further and faster than the European Union in developing financial regulation.

Given that, are we deceiving ourselves or indeed is the public being deceived in thinking that there could be a bonfire of red tape and that life after Brexit is the land of milk and honey, free of the regulatory burden of the European Union, given there are so many areas where the UK has gone further than the EU, in terms of our own domestic regulation?

Dr Carney: I will speak specifically to financial services and our direct responsibilities. One of the reasons why we want to preserve macro-prudential flexibility is precisely because we have the largest, most complex financial services sector in the EU and, I would argue, in the world. In that context, it is important for UK financial stability that we have the ability to have additional measures and that we implement those additional measures. You referenced a number of them and they are exceedingly important, if we are going to have, as we do today, a financial services sector that is nearly 10 times GDP in terms of assets and will continue to grow if it maintains its global market share, but could do so considerably.

The point from our perspective, if I can boil it down to a very simple thing, is that we do not want to be maximum-harmonised to the lowest common denominator in terms of prudential standards. We want the ability to provide higher protections, because of the scale of this system, and we have done. You have referenced some. We can anticipate there could be others in the future.

Chair: That is why the original Barnier proposals were so pernicious.

Dr Carney: Exactly, it is that aspect of those prospects, maximum harmonisation in all senses of the words. In our view, we need to have additional protections.

Q1070 George Kerevan: On balance, is UK financial stability enhanced or diminished by membership of the EU?

Dr Carney: As things stand, we have the tools to achieve financial stability in the United Kingdom. As you know, the point of the settlement is to ensure that we maintain those, given the evolution. These questions of financial stability are best judged in terms of a change to the status quo. We can deliver financial stability today. People will form their views. The Committee will form its views about the adequacy of the protections that are in the settlement. In our judgment, they address many of the issues, subject to all the back and forth, caveats and things, in the letter and the discussion going forward, in the context of further evolution in the euro area. The question is, if we changed our status, what the implications for financial stability would be, if I may rephrase your question in that way.

George Kerevan: Given that we have a status quo, I just wondered whether you thought that the status quo enhances or diminishes.

Dr Carney: Enhances or diminishes is relative. I am merely making the point that that is a relative question. It is relative to, if we were to have a new relationship with the rest of Europe, what the impact on financial stability would be. In the long term, I do not think there can be a conclusive answer to that. There are ways of organising ourselves that would deliver financial stability. In fact, I would not advocate any change to the remit or the tools of the Bank of England to deliver monetary stability. The judgment in that regard would have to be on financial stability relative to competitiveness and all the other aspects of the relationship and balance. In the shorter term, the transition could bring some challenges to financial stability.

Q1071 George Kerevan: I will try another route. If the eurozone continues to expand in membership and consolidate, that is the elephant in the room. It is not the UK in a group of 28 countries; it is the UK, as you said, a very significant player in financial markets, in bed with a single currency that is growing and consolidating. In the event that that consolidation and expansion of members happens, does that pose any existential threat to the Bank's ability to maintain financial stability in the UK?

Dr Carney: There are two things. First, it depends on the nature of the consolidation. If the consolidation is to provide, as per an earlier exchange, additional public and private risk-sharing that is consistent with a more sustainable euro area, then on the margin that helps financial stability in the United Kingdom. The question of expansion goes partially to the discussion around the EBA and double majority question. In other words, how is the rulebook determined?

What we have been focused on in parallel to that, but importantly, is our ability to have supervisory flexibility, irrespective of the size and nature of the euro area, and how that develops. In regards to the settlement that was agreed, to summarise, in the words of Sir Jon, we think that there have been material and significant protections put in place in order to ensure that we would maintain that necessary flexibility.

Q1072 George Kerevan: Your letter to the Committee says, "The majority of regulation applying to the financial sector in the UK is determined at EU level". It then goes on to say, "However, as the Bank's report stresses, financial stability is ultimately a national responsibility". Are those statements not rather contradictory?

Dr Carney: The issue is in terms of the balance between the degree of harmonisation that is consistent with having a single market in financial services, in other words the rules, the rulebook, the regulations, and the application of those regulations, in other words the supervision of the actual institutions and markets, ranging from banks to central counterparties to financial markets, and what flexibility the supervisors have in that application. Is that flexibility not just about application of those rules to individual institutions, but also to the system as a whole, to banks as a whole or markets as a whole?

What is crucial is that we have the appropriate degree of flexibility, in terms of the application of those rules. This is about a balance. In the development and the harmonisation of a single rulebook, which is in our interests to have a single market for financial services, and one of the largest single markets in financial services, we want to make sure that that single rulebook is of a standard consistent with the best international practice, and we exert considerable efforts to make sure that that is the case. Alongside that, we do not want to be bound, in a civil code way, to direct application of that rulebook. We want to ensure that we have the appropriate flexibility in supervision, which is what we have today and what we want to preserve for tomorrow. For us, in terms of the Government's negotiation, it was important for those principles to be recognised.

Q1073 George Kerevan: The single rulebook stems from the European Banking Authority. Am I right?

Dr Carney: The single rulebook itself is ultimately legislated.

Chair: Jon, why do you not come in on that?

Dr Carney: I will pass to him in just a second. Specific regulation and interpretations, in their broadest sense, come from them.

Chair: Can we have Sir Jon on this interesting point?

Jon Cunliffe: The single rulebook applies across the financial sector, so there is one applied for banking, but there is one for markets and there is one for insurance. It is a whole body of regulation.

Q1074 George Kerevan: Following on, what therefore is the responsibility of the European Banking Authority in determining the rules and the application of the rules? I am just trying to clarify where responsibility for financial stability actually lies. We have the EBA and we are signed up to that. Increasingly, one can foresee the European Central Bank playing a role in determining the rules. Just clarify, following agreement with the European Council, where the EBA stands in the firmament of regulatory organisations.

Jon Cunliffe: In the European Union, and this is a development that has been going on for 30 years, to balance the need for a single market with the fact that financial stability is ultimately—and we use the word "ultimately"—a national responsibility, the rule setting has been taken to the European level and the supervision and application of the rules to specific firms has been left at the national level.

The EBA exists to define the detailed rules, which we would call secondary legislation here and which are called level 2 in the European Union, but also to ensure that, as there is flexibility among the supervisors as to how it is applied, there is reasonable convergence in the way they apply that. It is possible for it to do peer review. It is possible for it to do binding mediation, when one supervisor thinks another has not properly applied the rules. It sits below the Commission, the Council and the Parliament, which make the primary legislation, in our lexicon. It makes the statutory instruments, if you like, the detailed legislation, and then it tries to ensure that the supervisors follow that nationally.

Q1075 George Kerevan: The supervisory bodies in the individual member states do not have untrammelled power to interpret those. We have the EBA.

Jon Cunliffe: No, and the rule setting is done at the European level. The single rulebook is the detailed rules underneath that, and those detailed rules allow for flexibility and discretion for national supervisors.

Q1076 George Kerevan: I understand. I am just charting out the areas of responsibility. It is not just the Commission and Council setting rules and the individual regulatory bodies of member states applying them. We still have a tier of European-wide supervision and monitoring of the rules.

Jon Cunliffe: It is not supervision; it is determination. These things shade into each other, I will accept, but it is determination of the detailed rules, because you do not want to set those at the primary legislation level. Then it is trying to ensure that the supervisors broadly converge in their practice.

Q1077 George Kerevan: Therefore, as we go along and as we have more consolidation within the eurozone, and the European Central Bank becomes more important as a player, that becomes an issue in terms of agreeing the harmonisation and the application of the rules.

Jon Cunliffe: The important role that the EBA plays in this, as the euro area develops for banking union and the ECB develops, is that it ensures in the single market that the rules are fairly applied between all supervisors. In this respect, the banking union and the single supervisory mechanism of the ECB are another supervisor equivalent to the PRA. The EBA sits there trying to ensure that, in the single market, things are applied relatively consistently.

Q1078 George Kerevan: Governor, does membership of the EU magnify or diminish the UK's influence over global rule making?

Dr Carney: In my experience, it magnifies it. To expand, it magnifies it in the sense that the UK has, as it should, considerable influence over the development of EU approaches, certainly in my experience to prudential and macro-prudential regulation. I will give one example: half of the world's systematically important banks are headquartered in the EU, four of which are in the UK. The EU appropriately has tremendous influence and self-interested influence, if I can put it that way, in the development of these rules. The UK plays an important role within Europe, and then plays an independent but associated role with the various European institutions in the international development of rules, including through the Financial Stability Board.

Q1079 George Kerevan: My final question is that you say in the letter you sent to the Committee, "To the extent it increases economic and financial openness, EU membership reinforces the dynamism of the UK economy". This goes back to the line of questioning from John Mann. That is rather abstract. There is a line of argument that the misconfiguration of the eurozone has led to a situation where Europe could well see a generation of deflation. We already have the ECB floating with negative interest rates. With such a question mark over long-term eurozone growth, where does that dynamism come from?

Dr Carney: The European Union is the largest economy in the world, with 500 million consumers including those in the UK. The UK is effectively 15% of economic activity in the largest economic area in the world.

George Kerevan: It is one that is slow-growing.

Dr Carney: It is a very wealthy economy. There are elements of the economy that are at the cutting edge of technology in various sectors, so one gets the spill-overs from that. There is an opportunity for British firms to take market share in this economy, particularly given that, in relative terms and certainly if you look relative to the G7, as we say in the letter and as is backed up in the broader report, the UK economy is joint with the US as the most flexible economy of the major G7 economies. It has a lower regulatory burden relative to the other European economies. These create opportunities for British firms, particularly in the services sector. The single market in services, potentially extending to digital services, will provide more for them.

Q1080 Mark Garnier: Sir Jon, can I turn to the subject of financial stability? The Bank of England yesterday gave an indication that there would be liquidity available around the time of the referendum. Why did the Bank of England feel it was necessary, first, to make that announcement; and, secondly, to make that announcement just now?

Jon Cunliffe: First of all, it is necessary, when you could have instability around the referendum and the referendum result, to make sure that financial firms and banks know that there will be liquidity in the system. Secondly, why announce this now in advance? This is very much a lesson that we learned from the Scottish case, which is that, if you leave it until quite late to decide whether to put these things in as insurance, then it can be difficult to do it, because you can actually create instability by the announcement itself, so we wanted to get it done.

Mark Garnier: So you have plenty of advance warning.

Jon Cunliffe: It does not cause instability, because it is just there in case it is needed.

Q1081 Mark Garnier: Do you anticipate a problem and what scenario could create greater problems than others?

Jon Cunliffe: There is uncertainty around what happens if the UK leaves the European Union. We know that there will be a period of uncertainty that would extend for some time. It is perfectly possible, and we are seeing some of that in financial markets now, that people will want to protect themselves from possible downsides. You can see movements in currency markets. You can see movements in risky assets, as people try to work out what the outcome of the process will be.

Q1082 Mark Garnier: I am very interested in your answer to the next question, because it refers back to the 2014 stress tests that you did of banks. I think you had been Governor of Financial Stability from 1 November, so you were Governor at that time.

Can I very briefly flick through the high-level narrative of the stress test scenario? It talks about what precipitates this thing, which is output growth of the United Kingdom starting to disappoint relative to expectations. I am going to go through this quickly. This leads to a rapid reassessment of the prospects of the UK economy, with associated depreciation of sterling. This therefore imports inflation and we have domestically generated inflation, so we have a tightening of monetary conditions, so action from you guys. This contraction in domestic demand exacerbates vulnerabilities in the housing market. This leads to a fall in house and other asset prices.

As you get the deterioration in the UK economy, concerns over the potential scale of banks' losses intensify. This increases the cost of bank funding. This has knock-on implications for the availability of new credit to households and companies. Households become more cautious and on it goes. You will be familiar with this doomsday scenario. What is interesting, having looked at this, is that you can replace the opening narrative of "output growth in the United Kingdom starts to disappoint relative to expectations" with "uncertainty surrounds the United Kingdom, in terms of the outcome of the EU referendum". Is that a fair or completely unreasonable scenario?

Jon Cunliffe: The stress test tests severe but plausible outcomes. The idea is that we find a scenario that is in the tail of distribution, so not what we think will happen, not what is likely to happen, but something that is a severe scenario, but which could happen because the economic forces hang together. We tested a different scenario in 2015. If you had a loss of confidence in the UK, those effects would be possible. Those are the extreme effects that would follow through from that. I would just say that one saw some of that in the Three Arrow crisis of the early 1990s. There was a similar scenario there.

Q1083 Mark Garnier: I completely take your point that these stress tests are not designed to reflect normal activity. They are designed to reflect black swan events, if you like. Actually, it is interesting when you read through the report that it looks at the frequency of these types of events happening. They are not actually that infrequent. If you look, there has been a larger contraction of GDP in 7% of historical outturns in the last 150 years. Unemployment has been at a level similar to the peak level in the stress-testing scenario or higher about six times in the past 150 years; that is 4% of outturns. Inflation has been at levels greater than those seen in the scenario about 28 times in the same period, and so these really are not black swan events. These are things that could potentially happen.

Jon Cunliffe: I would just make two points on that. One is that what you gave were the figures for each variable, and of course the combination is different. Secondly, the house price fall that we had, which was a peak/trough of 35%, is greater than we have seen in the past.

Q1084 Mark Garnier: You could see a drying-up of the market. The point is that this stress test illustrates a set of scenarios, given a certain start. I do not want to be alarmist, for quite obvious reasons, but it does set out a set of scenarios that could be precipitated by a number of uncertainties about what is happening in the UK economy. I am not trying to be a project fear monger or whatever it is, but perhaps a project realism or project cautionary monger. Is it not possible that this type of uncertainty, as a result of an outcome or otherwise of the EU referendum, could result in a scenario that would put the UK economy under severe stress, Governor?

Dr Carney: As Sir Jon said, it is a severe but plausible scenario, a coherent scenario, if you will. Directionally, is it possible that some of these effects could happen? Yes. It starts with a change in view on the outlook that channels through sterling. One has seen the very early stages of that in the option market, with a pronounced increase in negative skews. Now, these are very early days.

What I would reinforce is that our responsibility is to do a few things. One is to worry about downside scenarios. There is a responsibility for financial stability. That does not mean it is the central scenario. It is to worry about downside scenarios and then do what we can to ensure that the system has resilience to help manage through those. That does not mean that it erases the economic impacts, but it reduces the economic impacts.

Let me just say one other thing on the options, because that was the first question. Learn the lessons from Scotland, as Sir Jon says. It is not a great idea to announce something like this because you have to.

Chair: I think these points have already been made.

Dr Carney: From an accountability perspective, we felt that it was better to make the announcement in advance.

Chair: These points have already been made, Governor.

Q1085 Mark Garnier: Sir Jon, just to finish up on this, while the stress test looks at everything going wrong and there being a bit of a car crash in every direction, it is not unreasonable to say that one or two of these events could happen. Of course, it is worth bearing in mind that the stress test is about stress testing the banking system and the financial system. It is not necessarily about looking to see if there will be a shock in the housing market, if there will be a contraction of consumer spending or if there will be a rise in unemployment or a rise in inflation. Those are just elements that go into this stress test. In your opinion, could any of those elements, either independently or together, come out as a result of increased uncertainty with a change to our economic relationship with Europe?

Jon Cunliffe: To repeat the point the Governor made, directionally, you can see such circumstances. They may not be the central probability but, directionally, you can see how those forces might play out in that way, both within the banking sector and within the economy as a whole.

Q1086 Mark Garnier: The Bank of England collectively has felt that, given this type of thing is hypothetically possible and it could happen, it is worth just mentioning, at this stage of the game, that there are provisions in place so you will be ready if there is a crisis in confidence, in terms of the liquidity of the banking system.

Jon Cunliffe: In terms of the liquidity, the important thing was to make sure that it was known in advance that that was there. That is the normal insurance that a central bank would offer against that sort of event.

Q1087 Rachel Reeves: Mr Governor, in your remarks earlier, I think you suggested that numerous bank CEOs have said that they are making contingency plans to shift jobs or headquarters. I think that is what you said in an answer to earlier questions. Can I ask which CEOs and businesses have suggested this?

Dr Carney: The first thing is that there are a number, I said "a number", of banks that are making forms of contingency plans around Brexit, as you would expect. For PRA-supervised firms, it is natural that we are asking them about the nature of their contingency plans and that we are taking steps, as just discussed, in terms of liquidity.

In terms of foreign firms, I have been aware for some time that there are individual institutions that are thinking about the organisation of their European operations and taking into account risks around Brexit. It would not be appropriate for me to betray the specific firms, and those are best directed to the firms themselves, in terms of supervisory confidence.

Q1088 Rachel Reeves: Thank you. I will move on to the main thrust of my questions anyway. I wondered, Mr Governor and Sir Jon, how much of the weakness and volatility of the pound at the moment reflects uncertainty about the referendum, do you think?

Dr Carney: Maybe I will start. If we look at the pound since our inflation report in November, obviously it moves around, but there has been high single-digit depreciation on the ERI and relative to the US dollar, in terms of its broader trade-weighted basket. There are a few causes of this. One is them is a change in the perceived stance of monetary policy in Europe itself. The easing of the European Central Bank was lower, relative to expectations that the market had formed, so that partly accounts for some of the move there.

In terms of the implications of the referendum, we have seen a marked increase in implied volatility in the options market around the date of the referendum, once the date became known, and the skews in the option market, in other words the purchase of downside protection if the pound was going to depreciate—you understand this, I know—had gone up quite sharply above levels that were seen during the Scottish referendum. Those skews are principally expressed against the US dollar and the yen, not the euro, in part because one would impute that there is a view in the market that this has ambiguous and potentially negative consequences for the eurozone as well.

Q1089 Rachel Reeves: Most of the weakness and volatility of sterling at the moment, in your view, reflects the uncertainty around the referendum.

Dr Carney: When uncertainty around the referendum result has gone up, and it is hard to measure this precisely—one can look at betting markets and other factors—there has been an increase in activity. That is what we have observed in the past. The level of sterling is affected by a variety of factors, including, importantly, relative stances in monetary policy, as you well know.

Q1090 Rachel Reeves: In 1975, the Bank of England, when Gordon Richardson was the Governor, said that, in terms of contingency planning, "The main contingency for which we need to be prepared is a serious run on sterling". Obviously sterling was pegged back in the 1970s and the circumstances are very different, but do you think of it as still sterling where we would see the most response to the impact of uncertainty, in the case of Brexit?

Dr Carney: Foreign exchange markets are the most liquid markets. You tend to see reactions to events or perceived shifts in probabilities of events, first and foremost, in foreign exchange markets and option markets around them. One would expect a host of asset prices to be affected. You have given me the opportunity to stress, though, that obviously the framework we have today is far superior to what Gordon Richardson had to deal with, with the floating exchange rate and the liquid market. This is part of the shock-absorber mechanism in the economy, and so there could be adjustments in the value of sterling, and we have seen some indication of that, but in the context of a Bank that is able to provide liquidity to the system, if necessary.

Q1091 Rachel Reeves: We have spoken about sterling, and that has been where most of the discussion has been recently, but you mentioned that other assets would also be impacted. What other assets do you think we should be looking at?

Dr Carney: Let me take you back to the perspective of the institution. From a financial stability perspective, we are particularly focused on the condition of bank funding markets. Last night's announcement was entirely precautionary in order to protect against that conceptual risk. The very fact is that it will arguably reduce that risk, in terms of banks planning.

Looking at bank funding markets in terms of various sectors, and there is considerable analysis of this in the City, one can see that different sectors of the economy may be advantaged and others disadvantaged by a potential exit from the European Union. There are a variety of moves in asset markets that one could see. For us, we are looking at the functioning of the gilt market, where bank funding is going and obviously the impact of sterling. In the end, we have to take all of those factors into account in our monetary responsibilities to assess how persistent changes might be and how they would transmit to the real economy and ultimately affect inflation.

Q1092 Rachel Reeves: In the case of Brexit, apart from an impact on sterling—and Goldman Sachs, HSBC and others have suggested that there may be a 20% depreciation of sterling in the event of Brexit—would it be gilt markets or equity markets? Where else would you expect to see drops or volatility in the event of Brexit?

Dr Carney: I would use volatility. I would use the second. Again, there are challenges in bank funding, not that these are insurmountable, but challenges in bank funding and an adjustment in credit spreads for UK-focused corporates are also reasonable. I would make a general point, which is that one of the issues, from a financial stability and then from an economic performance perspective, is what the impact of volatility and, more broadly, of uncertainty are on economic activity. There is Bank research and analysis on this. It is something we use in the conduct of monetary policy. I can circulate, if it is of interest to the Committee, a *Quarterly Bulletin* on this article. If you look at the index we use to measure uncertainty, which is not solely determined by financial market variables, but also media sources and other sources of uncertainty—sort of Bloomian uncertainty, if I can use that reference—we have had about a 1 standard deviation move in that index since late December. If it persists to that level, it has an impact on economic activity in this country, based on past relationships.

Q1093 Rachel Reeves: That is very interesting and it would be interesting to see that *QB* article as well. The Financial Policy Committee has said that one of the main risks to financial stability is the current account deficit. Obviously financing of the deficit relies on the UK's openness to trade and investment. What could the impact of leaving be on those flows of capital into the UK?

Dr Carney: In part, it depends on how quickly the new relationship is defined. One cannot predict it with certainty, because it is a fundamentally uncertain event in terms of what the relationship would be afterwards. All things being equal, one would expect that, on the margin, there would be a reduction in foreign direct investment given that level of uncertainty, and that that would be compensated for by more short-term capital flows, which would potentially be attracted by changes in the level of sterling and changes in levels of interest rates, in other words a higher-yielding environment.

Q1094 Rachel Reeves: You are suggesting that, if we were to leave the European Union, FDI might fall but, because we would have higher interest rates, there might be short flows of money.

Dr Carney: I will make a general point, having seen instances of reductions in financial stability in a variety of advanced economies. Generally, the dynamic is that risk premia go up. In other words, the compensation for uncertainty and risk is increased and that is what attracts capital and maintains capital coming in, if there is a net capital requirement. That is more expensive capital and that has a consequence for economic activity. It is a function of the degree of uncertainty relative to the other fundamental drivers of that economy.

Q1095 Rachel Reeves: Can I just ask a final question? If some of these investment banks are right that sterling could depreciate by 20% in the event of exit, what would your models say the impact would be, in terms of inflation and of exports and imports, of a 20% decline in the value of sterling?

Dr Carney: I do not want to endorse a specific magnitude, but a notable depreciation of sterling, if that were to occur, associated with the decision to leave, would create a challenge. It is not an insurmountable challenge, but it would create a challenge for the Monetary Policy Committee, because the Committee would have to take into account not just that level of adjustment and the pass-through that would come from the lower exchange rate, which would be considerable and influence the stance of monetary policy along the lines of the questioning of Mr Garnier, but we would also have to take into account the reason for it. If the reason is driven by uncertainty, as may well be the case, what else is affected by uncertainty? Is there a reduction in investment and household consumption, at the same time, which would have the opposite effect of downward pressure on inflation? We would have to balance the two in making a determination of the appropriate path of monetary policy at that stage. Persistence is of the essence.

If you want the ready reckoners as part of the written submission, I can provide those. I would prefer to provide them heavily caveated, though, because I would not want to develop a monetary conditions index type of mentality in the market that there is a simple trade-off between the two.

Q1096 Rachel Reeves: What would be useful is, first of all, everything else being equal, what the impact would be of a 20% reduction in sterling on inflation. Also, as you say, if there was a 20% reduction in sterling, what are the other ways in which it could affect both financial markets and the real economy as well?

Chair: Do not answer that now. Come back to us in writing.

Dr Carney: If I may, I would rather come back.

Chair: Unless Rachel particularly wants an oral answer.

Rachel Reeves: No, that is fine.

Q1097 Mr Baker: Governor, in answer to Mr Jacob Rees-Mogg, you said very clearly that you had not had any conversations with the Prime Minister about what you might say in future about the EU referendum. Is that right?

Dr Carney: That is correct.

Q1098 Mr Baker: Did you have any conversations with any other member of the No. 10 or No. 11 staff team?

Dr Carney: No. My conversations and dealings with Government are with the Prime Minister and Chancellor and, on a rare occasion, with another.

Q1099 Mr Baker: Sir Jon, you have spent many years furthering Government policy at the highest levels. I am grateful to you for nodding, for the record. In the course of this British Chambers of Commerce debacle, it has emerged that a Number 10 staffer did call the President of the British Chambers of Commerce. Indeed, the name Daniel Korski has been put before the public by two newspapers. With all your experience, it is conceivable that you are aware of political tactics that perhaps the Governor and I have no knowledge or experience of. Do you think that, if the Prime Minister were to say, as Mr Jacob Rees-Mogg's quote seemed to indicate, that it would be helpful if the Governor of the Bank of England expressed a view about the EU referendum, it is conceivable that there are people who would go running around trying to procure such statements? Do you think it is possible that a No. 10 staffer has approached staff at the Bank of England trying to secure an answer from the Bank?

Jon Cunliffe: I could not speculate on that and no No. 10 staffer has approached me.

Q1100 Mr Baker: Do you think a No. 10 staffer could have approached any other member of the team without you knowing?

Jon Cunliffe: Without my knowing?

Mr Baker: The point I am making is that the business of the Bank is conducted by a large number of staff, is it not? At the same time, we have people at No. 10 who clearly are going about the business of trying to deliver what the Prime Minister wants.

Jon Cunliffe: Can I be quite clear? Just from the production of this document and the rest, first, I have great confidence in the integrity of the staff of the Bank of England. Secondly, I have great confidence, having been a member of the Bank for the last two years, in the way in which they respect and value the Bank's independence. Obviously I cannot know what I do not know, but I think the Bank takes its independence very seriously at all levels. I have pretty strong confidence in that.

Q1101 Mr Baker: Before I bring the Governor in, can I just ask you what reason you would ascribe to the Prime Minister's words that Mr Rees-Mogg gave us earlier, in which he indicated his expectation that the Bank would make statements?

Jon Cunliffe: You would have to ask the Prime Minister that.

Mr Baker: I will look forward to doing so. Governor.

Chair: Be very brief, unless you have something that you want to say.

Dr Carney: I think I should say something on this.

Chair: Really?

Dr Carney: Absolutely, yes. This letter was written by Sir Jon and me. You got it Monday morning because we worked on it over the weekend. Just to be absolutely clear, the Treasury would have seen this letter, I believe on the release of the letter, with the sole exception of one sentence, which refers to their approach to cost/benefit analysis. We were expressing views that are the views of the institution. We were not leaned on by anybody. It would have no effect if they tried and, in fact, the history in central banking is that, if you try to exert political influence on a central bank, you will get much stronger pushback in the other direction. To be absolutely clear, we are choosing our words carefully, but I think it is important, because this is really fundamental. My signature is on the letter. These are my views, but these are my views developed by the institution in close contact with Sir Jon and with colleagues.

Chair: We have had a very good canter around this subject. I appreciate your answers.

Q1102 Mr Baker: I am sure one of us can be relied upon to ask the Prime Minister what he meant. Several newspapers have suggested that the Mayor of London joining the leave campaign affected the value of sterling. It is a subject you touched on a few moments ago, Governor. How credible do you think it is to suggest that the Mayor joining the leave campaign is responsible for the fall in sterling?

Dr Carney: I would say that the combination of having the agreement, and therefore a date for the referendum, and the tangible evidence of a campaign in favour of leaving, with credible politicians as part of that, not least those represented on this Committee, concentrated the minds. The collection concentrated the minds of people in financial markets on this issue. I know that seems a bit odd that sometimes financial markets ignore an issue until there are focal points that make it more tangible, but this is what happens time and time again. It was a combination of events that has focused minds.

Now, those views were expressed in sterling and in the options market. I would put them into context. They are relatively large moves, but they are not unprecedented moves in terms of the moves of sterling. As with Ms Reeves, there were other factors that have influenced the moves in sterling. The moves in options markets are quite notable, but again those markets continue to function well and we have seen some move back in the level of sterling in recent trading sessions.

Q1103 Mr Baker: I am grateful. Do you think there is any prospect of the Bank being prevailed upon, or indeed choosing for itself, to sell sterling in the run-up to the referendum?

Dr Carney: No, absolutely not.

Q1104 Mr Baker: How have Bank reserves changed in the last few months?

Dr Carney: The only change in reserves, to my knowledge, is that we had a maturing bond and we issued a $2 billion-equivalent bond at the start of this week, which has closed. Our own reserves, just for clarity, are very small, in the order of £6 billion, which is only for monetary policy purposes. We would only use those for monetary policy purposes. The reserves of the country are considerably larger, but they are not under our direct control.

Q1105 Mr Baker: Can I take your earlier answer to mean that, in relation to this question of selling sterling, you would fiercely resist any political pressure?

Dr Carney: Absolutely. To be clear, the reserves we have are for monetary policy purposes. You could question as to whether, to some extent, they are big enough to affect monetary policy outcomes, but they are for monetary policy purposes. Therefore, they are under the control of the Monetary Policy Committee. The Monetary Policy Committee would have to take a view that that was consistent with achieving this price stability target. Given that we have conventional measures, I cannot conceive a circumstance, irrespective of this document, at the moment, where we would use those for monetary policy purposes, given the other flexibilities we have.

Q1106 Mr Baker: Sir Jon, Lord King, the previous Governor, said that, of the 36 FTSE 100 companies that signed a pro-EU letter, "Some of them are the same people who said Britain should adopt the euro. Why on earth should we listen to them?" Do you agree with Lord King?

Jon Cunliffe: First of all, the question of whether the UK should join the euro, in which I was involved in a previous existence, is a very different question from whether the UK should or should not remain in the European Union. As for whether you should listen to 36 FTSE chairmen or others, it is just for the people of the UK to make up their own minds, in the referendum, about whom they trust and whom they want to listen to.

Q1107 Mr Baker: Do you accept now that it would have been a mistake to join the euro?

Jon Cunliffe: I was responsible for the five tests that said that the UK should not join the euro.

Q1108 Helen Goodman: I would like to come back to some of the economic questions and follow up some of those that Rachel Reeves was asking. Sir Jon, you have described a possible decision to leave the European Union as "unprecedented" and said that the uncertainty if we leave would be extended. Obviously, Article 50 gives us two years for renegotiating our trade relations with the European Union. How long do you think this period of uncertainty would last if people did vote no in the summer?

Jon Cunliffe: First of all, I described it as unprecedented, because it is unprecedented. It is just a historical fact. As to how long it would take, the Article 50 process is untried, so again we are off piste here to some extent, or the piste has been marked but nobody has been down it yet. You would have to see how long it would take. If you look at comparable processes where the European Union negotiates with one country in forming an agreement or whatever, they require the Council first of all to decide what the negotiating mandate is and then require the Commission to carry out the negotiations, reporting back to the Council. I would have thought that deciding how to unpick the UK's current relationship with the European Union, which has a number of other issues in it, is going to take the bulk, if not more, than the two years. I was just looking at the rhythm that it takes to agree association agreements and the like.

With that said, if everyone decided that this was extremely urgent and had to be done very quickly, conceivably it could be done very quickly, but you would have to get all of the other members of the European Union to decide what line they wanted to take in that negotiation about how to deal with the divorce, as I think Mr Garnier called it.

There is a second issue then, which is, having decided how to deal with the existing responsibilities and links between the UK and the European Union, what the relationship for the future should then be. Those negotiations could happen in parallel, but again you are looking at something akin to the negotiation of an association agreement or a trade agreement.

Q1109 Helen Goodman: Sorry to interrupt, but you are saying that the negotiations to leave are separate from the negotiation of a new relationship.

Jon Cunliffe: Correct, yes. They could be done as part of the same. Article 50 has not been used before, as I say. It is not a very long and detailed article, and the European Union can be very flexible on procedure, when it wants to be. I do not know, but I had assumed that Article 50 is about negotiating the terms of the separation. Then there would need to be a separate agreement with the UK, which could be a different model. It could be an association agreement. It could be a free trade agreement. It could be an EFTA agreement.

Helen Goodman: It could be the three in combination.

Jon Cunliffe: There is a very wide range of possibilities that could be negotiated. That would have to be done, possibly at the same time, but again I have always envisaged it as a separate negotiation.

Q1110 Helen Goodman: The two years is in the Article 50.

Jon Cunliffe: It is the Article 50 process, correct.

Helen Goodman: Your suggestion is that negotiating a new agreement would not be bound in the same way by that sort of timetable. Is that what you are saying?

Jon Cunliffe: At the end of the two years, unless agreed by the UK and the remaining members of the European Union, the process of negotiation stops and then you go to the separation. At that point, it is conceivable that a new agreement on the UK's future relationship once it has left will not have been negotiated.

Q1111 Helen Goodman: Thank you very much. Of course we would also have to renegotiate our trade relations with all the non-EU countries. I do not know whether you have ever been involved in those and whether you have any sense of how long that would take.

Jon Cunliffe: I have, yes. As the Governor said, trade negotiations are generally slow-moving and they can take a number of years. The EU/Canada one is often quoted, which is now in its eighth year. You do not know and one cannot be categoric about how the different parties would approach it. The UK of course would be leaving a European Union agreement with third countries, and that third country may feel, as a matter of urgency, that they wanted to replace it with something or not, but the capacity for trade negotiations is pretty full at the moment, if you look at the big agreements. I would have thought that those agreements would normally take some time to do.

Q1112 Helen Goodman: When the Government says a 10-year period of uncertainty, do you not think that is a bit of an exaggeration? The pressure would be on us, the Canadians and everybody to be in a situation where trade was facilitated.

Jon Cunliffe: From the perspective of the Bank of England, and this question of the medium term, the short term and the longer term, possibly one looks as far ahead as 10 years. When I talked about an extended period of uncertainty following a vote in the referendum to leave, if that happened, I was talking about what happens in a year or two afterwards by Article 50.

Helen Goodman: That is what you took you to be saying.

Jon Cunliffe: If you looked at how long TPP has taken, and the European Union's trade agreements with Singapore, with South Korea and with Canada, something longer than five years is not unreasonable. The question is whether that would be the situation.

Q1113 Helen Goodman: We are talking about a zone between two and seven years, I guess.

Jon Cunliffe: I would not want to put a number on it.

Q1114 Helen Goodman: Fine, that is very helpful. Governor, you said in answer to Rachel Reeves that you think investment would be likely to fall if we were in a period of uncertainty. In fact, we have an analysis done by an economist at Goldman Sachs suggesting precisely that. Has the Bank thought at all about the extent to which investment might fall in a period of uncertainty?

Dr Carney: No, I would say. To be clear, my comment related to foreign direct investment, new plant equipment and purchase of companies' assets in this country. I will just refer to your previous exchange. Uncertainty, including about future trading arrangements, could cause institutions and firms to delay investment. There is an option value of waiting. It is something one often observes and, with such fundamental questions, it is reasonable to expect it. Orders of magnitude are difficult to say. Again, directionally one can see the logic of it and that is backed up or is corroborated, which is a better way to put it, by conversations with CEOs of institutions and foreign firms that invest here.

I would make one point. One thing that is important to recognise around current accounts and the financing of current accounts, as you would appreciate, is about the net flow of new investment. It is not really a question of people selling assets here. They could, but it is about their incentive to add more or to come to this economy and make large investments at a time of uncertainty. It is reasonable to expect, in fact I would suggest it is hard to argue the converse, that during a period of uncertainty, particularly around trading relationships, there would be, at least in direction, a fall.

Q1115 Helen Goodman: The flow of FDI into this country at the moment is about £27 billion a year. We are looking at a period of at least two years, if people voted no, when there would be a question mark. You seem to be saying that it would be hard to imagine a situation in which that level of foreign direct investment was maintained for at least a period of two years' uncertainty.

Dr Carney: I would defer to you on the precise figure. Again, directionally yes. What happens sometimes is that, over time, if the pricing of assets fall in relative terms, then investment can start to come back, because the risk/reward associated with those assets has changed. Certainly there are identifiable pockets of the economy where this effect could be more marked.

Jon Cunliffe: Could I just make one point and maybe it is a clarification on my answer? Within the period of this negotiation that would have to happen on exit and on new arrangements, it is quite possible that you could get clarity quite fast on where people wanted to go, but the negotiations might still take a long time. As I say, you could be in a position where all parties agreed quite quickly as to where they wanted to go. The point I was making is that the process by which people would reach that agreement on the European side is a complicated process. Different countries have very different views and I personally would expect, regardless of what the UK decided it wanted, that on the European Union side it would take some time for them to work out what they wanted to do.

Q1116 Helen Goodman: Do you think there is clarity at the moment about what the UK side would want? The Government have put out three options. I would not have thought that that was a complete list of all the possible options. Are you aware of any clarity about what the alternative would be?

Jon Cunliffe: No, I think that would be for the Government to decide.

Q1117 Helen Goodman: Just coming back to the impact on investment in the domestic economy, obviously that is the largest part of the investment in this country and it accounts for about 10% of our GDP. Would the uncertainty about relations with trading partners, which affects a significant part of the British economy, not at the very least affect the level of investment in firms in the tradeable sector?

Dr Carney: That is a reasonable expectation, yes. Again, in terms of overall degrees of uncertainty about general arrangements and a potential tightening of financial conditions for a period of time, it is reasonable to expect that to have an impact on investment. I would couch this, though, and bring it up to a slightly higher level very quickly. First, of course, these are transition costs, which would have to be weighed against an assessment of the longer-term benefits. That is an assessment that we are not making as the Bank, as you know. We focus on these aspects of the shorter-term effects, which could persist for some time, as per your previous discussion, because they could impact financial stability and, therefore, would have to be weighed against to the extent that we could.

Helen Goodman: Exactly, and a short-term period where investment was declining, which extended over several months, would have a detrimental effect on the British economy undoubtedly. I will not ask you about the long term and, anyway, we will all be dead.

Chair: We have been here for two and a half hours. We normally run sessions for two hours, but two colleagues want to come in with quick rejoinders and I have a final question or two as well.

Q1118 John Mann: Twice, Governor, you have raised a question of banks moving if there is a Brexit. Which, where and when?

Dr Carney: I refer back to my answer to Ms Reeves. I do not think it is appropriate for me to betray supervisory confidences about specific institutions. The locations depend on strategy and where they have pre-existing assets. In terms of relative locations, they include Ireland or jurisdictions on the continent. There is a balance of factors that would drive it. To the specific question, some of these considerations are irrespective of this question, but there are others that are clearly driven by that. It is for those institutions to speak in public, not for me to betray them.

Q1119 Mr Rees-Mogg: Governor, I am concerned that, in the evidence you have given, you have continued the tendency of the letter and your speech to pick on the positives of the European Union and ignore the negatives. In answer to Mr Streeting, you said that, if we left and had our own regulation, there would be more cost for those businesses that also had to meet EU regulation, but that ignored the very large number of businesses that do not actually do business with the European Union, which would have a straightforward saving if we had a sensible regulatory mechanism.

On CRD IV, you said that this was very helpful because it meant that passported banks would have to obey their home regulations and this was beneficial to financial stability. If we were outside the European Union and did not have passporting regulations, then they would be subject to the Bank of England's regulations in the ordinary way. If we were independent, we would have been freer. Of a piece with your letter, you state that the rest of the EU is more important to UK trade and investment than the converse. Well, that is arguable but it is not a fact because, if you look at it in cash terms, it is the other way round. If you look at it in percentage terms, it is your way round.

What concerns me is that the influence and strength of the Bank of England is in its Olympian detachment from day-to-day political partisanship. In your evidence, in your letter and in your speech, you are getting into political partisanship, removing yourself from your Olympian detachment, damaging the Bank's ability to regulate through influence, which has historically been just as important as the black letter of the law.

Dr Carney: With respect, Mr Rees-Mogg, what concerns me is your selective memory, in terms of my responses, including to Mr Streeting. As I indicated to Mr Streeting, there are two types of firms. If you are domestically focused, there would not be duplicative regulation, dependent on whether or not there was activity abroad. In my answer regarding CRD IV, I used the term "prudential regulation". The question was around a proportionate application of that prudential regulation. I clearly indicated that we had advocated a more proportionate approach for smaller domestically focused firms in the EU, and we could be expected, in the event that the UK were to leave the EU, that we would apply that type of approach as well.

That was one example of a regulatory saving, if you will, which we are trying to achieve in the processes of Europe, which it is reasonable to expect we would look to achieve. In both of those cases, what you have just asserted I actually addressed directly in my answer on those situations.

In terms of any suggestion regarding the Bank's conduct of its financial stability responsibilities, the mitigating actions we are taking in order to ensure that, whatever decision the people of the United Kingdom take, we can mitigate any impact on financial stability so that they can get on with their lives and bigger questions can be addressed, are taken absolutely objectively and dispassionately, as part of our responsibilities. Any suggestion that contingency planning for an unprecedented event, in order to take off the table as much as we can the possibility that there would be funding strains in the economy that could affect outcomes, not just in financial markets, but in the real economy, would be done by us for any other reason than to support financial stability is entirely unfounded.

John Mann: He was not suggesting that.
Chair: We are not going to go any further down that road.
Mr Rees-Mogg: Could we make sure that Hansard has got Mr Mann's interjection?

Q1120 Chair: Order, order. I just want to clarify a few points. You have made clear that you want to mitigate the impact on financial stability of any instability that may come with leaving. Would you describe leaving as a downside surprise and do you think it would cause a profound economic shock?

Dr Carney: It is currently not the median expectation of financial market participants. It is a perceived as a risk, but it is a known risk.

Chair: It is not a profound shock.

Dr Carney: It is a risk to domestic financial stability and it has some potential to amplify pre-existing risks to financial stability.

Chair: I will give you a third go: it is not a profound economic shock.

Dr Carney: It is a material financial stability risk. If you are referring to the communiqué language of the G20, which I think that is, it is a different phrase that is the view of the collective countries of the G20.

Q1121 Chair: Is it more than a little bit of extra volatility?

Dr Carney: The issue is the biggest domestic risk to financial stability, in part because of the issues around uncertainty, but also because it has the potential, depending on how it is prosecuted and how these issues can be addressed, to amplify risks around the current account, as has been discussed, potential risks around housing, potential risks around market functioning, which we are trying to mitigate, and associated risks with respect to the euro area, which would have a feedback.

Q1122 Chair: The reason I am asking about these phrases is that they have some significance in themselves. Are you saying that a departure would represent more than a little bit of extra volatility or are you saying that that is all it is?

Dr Carney: I am saying that it is the biggest domestic risk to financial stability. In my judgment, the global risks, including from China, are bigger than the domestic risks.

Chair: The biggest risk is clearly not marked down as a little bit of extra volatility.

Dr Carney: No, it is not.

Q1123 Chair: Sir Jon, within your discussion of Article 50, in those exchanges, which were extremely interesting and enlightening, about the distinction between the negotiation to leave and the negotiation of agreements that would be consequent upon departure, you have suggested that this might all take quite a long time. Therefore, this two-year period might not be sufficient to accomplish it. The two-year deadline puts the smaller partner in the negotiation at something of a disadvantage, does it not? Does the leaving country not therefore have more of an interest in getting a deal than the bigger partner, in this case the EU?

Jon Cunliffe: I am not sure. The balance in the negotiation is what the balance in the negotiation is. People have speculated about what we might want from the EU and what the EU might want from us. That is the balance. Time then puts pressure on the weaker partner, whoever the weaker partner is.

Q1124 Chair: Who is the weaker partner?

Jon Cunliffe: We have put in here the relative trade numbers. Mr Rees-Mogg mentioned the cash, as opposed to the percentage of GDP. This has not happened before. One would really want to see what people on the other side wanted.

Chair: You do not know who the weaker partner is.

Jon Cunliffe: I would not want to speculate on who the weaker partner is. The only point I would make is that, on the other side, there will be 27 member states that will not necessarily all share the same view about what the European Union wants from the UK.

Q1125 Chair: They will struggle to get their act together is what you are saying. Do we need to trigger Article 50 immediately? Is there not merit, therefore, in delaying the trigger?

Jon Cunliffe: As far as I know, the Article 50 trigger is for the member state to deposit with the European Union notification that it was to leave.

Chair: We have a measure of control over that.

Jon Cunliffe: As I prefaced earlier, I am not a lawyer but, legally, I would imagine that it is for whoever wants to leave to trigger the leave process. That would be within our control.

Q1126 Chair: I am asking you whether, given all your experience in this field, there is merit in delaying the trigger.

Jon Cunliffe: This is getting into speculation now, but one would start the clock running when one knew what one wanted.

Chair: That would probably not be immediately.

Jon Cunliffe: It would be when one knew what one wanted.

Q1127 Chair: Governor, I just want to ask you about a relationship you know a great deal about, which we do perhaps do not, which is the relationship between Canada and the United States, with respect to negotiations concerning financial stability and other prudential matters. In your considerable experience of that relationship, have we any lessons we can draw? I should add that I have not given you any notice of this question, but you must have thought about that issue.

Dr Carney: With respect to my Canadian colleagues, I would hope that, if events were to transpire, we would have more success, in terms of mutual recognition in financial services between United Kingdom and the rest of Europe, than Canada does with the United States. I will not go into the details of the financial services chapter of NAFTA for the types of issues we have been discussing.

Chair: It is much less developed.

Dr Carney: I would caveat that with the very obvious point that Toronto, as lovely and effective as it is, is not a leading international financial centre. In terms of relative powers and the status quo, going back to Sir Jon's answer, that tips the balance in that aspect.

Q1128 Chair: Governor, is what we are hearing today and the documentation you have put in the public domain, unless the Committee decides to recall you or ask you further questions when you come on other matters, intended to be the Bank's last word on this issue or can we expect further?

Dr Carney: The answer is yes. The document is a response to questions from the Committee, so it is a response to the Committee. There is only one caveat, which you can appreciate, and we will respect the purdah of the campaign. Whether we are here—and I am in front of the Lords in a few weeks—or we have a monetary policy press conference, it is possible that we will be asked questions. You can expect the answers to those questions to be consistent with what we have said. We will stay within the realms of our remit.

Chair: I am just trying to clarify whether there are other documents.

Dr Carney: We have no intention of producing any additional public documents and we only produced this document in response to your valid questions.

Chair: I have let this session run, because a number of colleagues have had a number of very detailed questions that they wanted particularly to ask. Thank you very much for giving evidence and for giving such detailed replies on so many issues.