



Sam Woods

Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority - Bank of England

EU-UK regulatory cooperation, competitiveness and growth

Thank you, Didier, very much. Let me start with three quotes. First, here is the White House. 'President Trump will halt the job-killing and inflation-driving regulatory blitz.' Second, here is Rachel Reeves. 'The regulatory system has become burdensome to the point of choking off innovation, investment and growth. We will free businesses from that stranglehold.' Third, Ursula von der Leyen, 'We need to make it easier to do business in Europe. First, this means cutting red tape.' Didier, as you know well, Eurofi is attended by many very highly accomplished and very skilful industry lobbyists. They have been studying these comments, and they have detected a common theme, which is that across the Western world, with a few notable exceptions, the most senior political leaders in power have reached the view that we have too much regulation. As well as the lobbyists, there are many regulators here as well.

What should we make of this as regulators? Let me just tell you a little story about the first time I attended the Board of Supervisors at a European supervisory authority (ESA). I should be clear about this. I have actually been on the Board of Supervisors of more than one ESA, so I am able to tell you this story without revealing its source. What happened was I met with the team back in the UK and at PRA, before going to my first meeting, because I wanted to make sure I understood what we were about. Did I need to try and forge an alliance with the

Dutch, try and head off an Italian amendment, come in early, come in late? This is very familiar to many of you here in this room. The team is very hard working. They have done me an excellent brief. The brief was about 30 or 40 pages, to explain to me what I should be doing in this meeting.

They printed off the brief, but everything else, all the other papers, they had put onto my iPad, which I have just there, in order to save on printing. As it was my first meeting, I said, 'No, just print off me all the papers for the meeting.' They said, 'Are you sure about that?' I said, 'Yeah, print them off.' They printed them, and the board pack for this one meeting was about this thick. I thought, 'This is quite a big mouthful.' I waded my way through it, but when I got to the end of it, I realised that what they had done was print off the meeting papers, but they had not printed off for me all of the rules which we were being asked to approve in this meeting, which would then apply to the financial sector. I said, 'Can you please print those for me as well? I want to make sure I know what we are approving here.' They looked at me like I was a madman, but I insisted.

Anyway, they printed them. It is an actual fact that the rules we were approving in that one meeting were actually too big to fit into my suitcase, so I had to leave them in the UK. I have always remembered that episode, and I am not making an EU point here. We are very capable of producing

very long regulations by ourselves in the UK as indeed our colleagues are across the Atlantic Ocean, although they seem a little distracted just at the moment.

I am telling you this because, as regulators, I think we should acknowledge that in some places the politicians may in fact have a decent point. In fact, in the UK we have gone further than this. The Parliament in the UK, probably some of you know, gave us regulators a clear and a strong new mandate to do more to facilitate competitiveness and growth. This had strong cross-party support when brought in, in 2023, and retains strong support from both of the main parties, even though we have had a change of government since. We are making a major and sustained effort to deliver this new responsibility given to us by our elected representatives.

Simplification is a very important part of this, and much discussed at the moment here in the EU, but I would argue the issue is in fact a bit broader than that. We are making some simplifications, such as our new strong and simple regime for small banks. I know that tailoring is a dirty word here in the EU following the banking turmoil of 2023, but honestly, the full complexity of our rulebook is too much for our smallest institutions. We are also cutting compliance burdens. For instance, we have cut the reporting burden for insurers in the UK by a third and are now exploring what we can do on the banking side.

Some things have in fact been over-calibrated. In the UK we have been deferring senior bankers' bonuses, including a couple of people in the room actually, who probably have strong views on this. We have been deferring over effectively eight years. Deferral is very important, but eight years is more than we need and out of line with the approach elsewhere, so we are consulting on bringing that back in a bit. Another example is a small one, but I think it is a good example of over-calibration. It is that in our rules we prevented high street financial advisors from banking with ring-fence banks, on the grounds that they were a financial institution. That is a step too far and not necessary to achieve the purposes of the ring-fence. In a few places, we have simply made mistakes. Somewhat nervously, as we are here in the EU, I would point to the bonus cap as one such mistake, because in our view it does not advance regulatory objectives, and in some ways in fact it does the opposite.

Underlying all of this, following a long period of very significant regulatory expansion and change following the global financial crisis, it is actually reasonable for the financial sector to seek a bit less churn in the coming period. I imagine, possibly wrongly, that any industry lobbyists in the audience today will have been enjoying this speech so far, although of course plenty of regulatory churn is a great thing for lobbyists, so perhaps you are worried about that aspect. Those of you who fall into that category are also experienced hands, so you are waiting. You are waiting for the 'but'. Is there a 'but'? Of course, there is a 'but'. There must always be a 'but'. The 'but' in this case is very simple. We must not throw out the baby with the bathwater. There is a lot that we can and should do to ease the regulatory burden and support growth, but we must not take steps which undermine financial stability.

The UK Parliament actually debated this very specific issue long and hard in 2023, and provided an absolutely clear

message to the regulators. We like the baby. We want to keep the baby. Do not injure the baby while changing the bathwater. Possibly some of you here are not very familiar with this English idiom about babies and bathwaters. You are wondering, 'Why is this regulator talking about babies?' Let me put it to you more simply. The instruction from Parliament to us is, 'Do not do anything to deliver our new objective on competitiveness and growth which would undermine our primary objectives of safety and soundness and policyholder protection.' I think this position is very sensible, because in my view, there is in fact scant evidence that the key planks of the post-global financial crisis (GFC) reforms, such as the overall level of capital in our banking systems, have in fact been seriously overcooked.

One obvious risk to this position is, however, the possibility of a potentially unstable dynamic between jurisdictions, leading to a race to the bottom. As it happens, some talented researchers in the UK have just published a super interesting piece on this exact issue. Carlos Salazar, Misa Tanaka and John Thanassoulis have created a quite ingenious thought experiment on competitiveness and growth. Bear with me for a moment here. Imagine a world with two countries, and each with a financial regulator. One regulator, let us say it is run by Misa and Carlos, is more strongly focused on financial stability, and the other, let us say it is run by John, is more focused on short-term growth. If there are no internationally mobile banks, each regulator sets the stringency of regulation at the level which maximises to its preferences. Unsurprisingly, Misa and Carlos set tougher rules than John.

Next, our researchers consider what happens when some banks are willing to move countries. This creates an element of competitive deregulation, as regulators make some efforts to attract and retain banks in their own jurisdiction, but not a race to the bottom as long as both regulators attach some weight to financial stability.

Our researchers then examine what happens if the regulators are given a stronger growth mandate. It turns out that, if we give John a stronger growth objective, so that he becomes even more growth-focused, then competitive deregulation does not intensify much, because Misa and Carlos simply become less willing to compete with him. Therefore, the stringency of regulation is not much changed. If, however, we give the stability-minded Misa and Carlos a stronger growth objective, then competitive deregulation kicks in much more strongly, as they lower the stringency of regulation, and John reacts by lowering his standards further as well. We see a big drop in stringency, though interestingly one that still remains short of a race to the bottom, because both regulators still want to avoid costly financial crises.

We can take all this with a pinch of salt, as it is only a theoretical model, but I think it points to something very important: the role that international standards and cross-border cooperation in banking regulation can play in driving a shared commitment to financial stability, which serves the interests of citizens in all of our countries. This seems particularly relevant today, with the UK having left the EU and in a world which is fragmenting more daily. I share the UK government's enthusiasm for deepening cooperation between the UK and the EU as we enter the next phase of global affairs. As a regulator, I expect to play my full part in that.