Skyfall: British Banking After the Financial Crisis

By Third Way | Published: 09/19/14 | Updated: 05/12/15

Introduction:

Lauren Oppenheimer,

Senior Policy Adviser of the Capital Markets Initiative, Third Way

Featured Speaker:

Peter Matheson,

Economic Counsellor,

British Embassy in Washington, D.C.

Location:

G-11 Dirksen Senate Office Building, Washington, D.C.

Time: 10:30 a.m. EDT

Date: Friday, September 19, 2014

Transcript by

Federal News Service

Washington, D.C.

LAUREN OPPENHEIMER: Hi, everyone. We're going to get started. Thank you for coming. My name is Lauren Oppenheimer. And I see a few new faces, so I will be quick but also let you know a little bit about the Capital Markets Initiative, which was started two years ago. And we believe in healthy, well-functioning markets that benefit all Americans. Besides that we don't have any bias. We are just trying to make sure that we are educational.

But the reason we're doing this is because, just like people don't move to L.A. to work in government, they don't go to New York City to surf, and they definitely don't move to Washington because they have an abiding passion for capital markets, our goal is to make capital markets more accessible to policy makers.

Today's "Capital Markets 101" is on the British response to the financial crisis. A couple of things before I introduce today's speaker, Peter Matheson. There is going to be a period for question and answer afterwards, but feel free to ask questions as we go along, if you have any. On your seats you'll find today's PowerPoint, as well as a paper that Third Way wrote on Cyprus, and also our capital markets primer. And lastly, thank you so much for coming. We know you guys are really swamped.

Our guest today is Peter Matheson, who has been economic counsellor at the British Embassy in Washington since May 2009. Prior to being named economic counselor, Peter worked for the U.K. Treasury. While at Treasury, his specialty was advising government officials on macro-economic developments, certainly an important position to be in during the 2008 economic crisis.

In a recent blog post, Peter highlighted the global success of English rock star David Bowie. He wrote that Bowie was successful because he was the "quintessential internationalist, a superb manifestation of trans-Atlantic teamwork." Both of our nations are working through an array of post-crisis regulatory changes, and Peter is going to follow on Bowie's lead by providing us with valuable insight into the international perspective on banking regulation.

Thank you all for coming. Peter Matheson.

PETER MATHESON: OK, thank you, Lauren, for that very, very kind introduction. It's just great to be here today.

As Lauren said, I'm Peter Matheson, the economic and financial counsellor of the British Embassy. My portfolio captures quite a lot of issues. I focus on a range of economic issues and I focus on a range of financial issues. I guess, from the perspective of the U.K. and the representation that we do here in the United States trying to explain the United Kingdom to Americans – no easy task – I guess there's kind of been two areas of major focus in recent years.

One of those has been deficit reduction and fiscal policy. You guys have your own headaches with those issues. And it seems like a mini soap opera, being two or three months from what I can tell, where you have to kind of set budgets and things. But that's been a big part of policy making in the U.K. in recent years, and we spend quite a lot of time trying to explain that to an American audience.

But the other thing that we spent a good part of the last two or three years considering is financial reform, both financial reform in the United States, trying to understand Dodd-Frank, trying to work out how Dodd-Frank impacts on U.K. financial institutions and the global economy more generally, but also thinking about our own reforms and making sure that those reforms are advertised in the United States, that they're understood in the United States, and that's not always an easy thing to do necessarily. So it's really great to have this opportunity to come here today and to set out some of the basics of what we're doing and why we're doing it.

Now, I'm going to start – because financial sector issues and financial sector regulation can get quite complex, and I wanted to start with kind of set of principles because I think it's important to set the scene and to set a common understanding of really why we're having this discussion.

There's quite a lot of political debate about financial services, and I think sometimes that debate can get oversimplified between, on the one hand, the notion that the financial services caused the crisis in 2008 and 2009 – that can never be allowed to happen again, and therefore we should take whatever steps necessary to insure that we never have a repeat of that scenario – and then on the opposite extreme, the notion that any form of regulation is costly and is a burden and results in economic consequences, and aren't all of our economies struggling enough as it is right now; why do we want to impose burdens? And in that debate, I think the kind of essence and the real philosophy behind why we're here, why we've been thinking about financial reform, kind of gets lost.

So here, if we think about 2007 and 2008, I think something that absolutely everybody, regardless of political affinity, can agree with, is there was a pretty bad crisis. That was the case here in the United States. It was the case in the United Kingdom too. The crisis that we had, the danger we had, it had different characteristics than here in the United States, but at the same time it was still our most severe danger since the Great Depression. So I think everybody can agree that that is not something that any of our economies want to go through again. So I think that's the first principle I would set out.

Following on from that is I think the conclusion that that crisis obviously emerged from some form of policy failing. Now, there could be a debate about whether or not that was financial policy or whether or not that was monetary policy, but I think a large suite of people would agree that financial policy had to have some rule of law. Banks were obviously a very core part of the boom that happened in the last decade. It's going to be hard to avoid another crisis like that and repair things if we don't think about financial sector policy.

But then the third thing I would say is that costs and benefits do have to weighed, kind of back to my point about the costs of regulation versus the benefits of regulation. If we could just regulate things and control things which pose risk to us, then we would just do that and we would minimize or reduce risks as usual. That's just not possible and not desirable, and risk can be desirable and good things can come from taking risk.

So ultimately, in the process of doing this, in terms of imposing new controls, new restrictions or new regulations, it's really important that that is done in the context of a cost-benefit analysis, not something that I think we're are – we are very sensitive to in the United Kingdom. You know, we have a coalition government who, while it's been pretty ambitious in terms of financial reform, overall its instincts are probably more towards deregulation in some areas. So it's important, if you are imposing new restrictions, new rules and new regulations, that you do that in the context of a cost-benefit framework.

And then just the final thing I would say – and I'll come back to this a little later on – is that this is really, really complex stuff. There's many layers to this. It's complex from a policy-making standpoint. It's complex from the perspective of the activities that banks were undertaking and continue to undertake. So, you know, it's not particularly easy.

And, you know, I would draw – I think quite an informative distinction or comparison can be drawn between financial services issues and fiscal policy issues. I don't want to belittle fiscal policy and deficit reduction and those issues which people spend a lot of time thinking about, but if you agree that you have a problem with your deficit, then there's ultimately two things that you can do. You can raise taxes or you can cut government spending.

And there's debates you can have about the types of taxes that you might want to raise or the types of spending that you have to cut, but ultimately you have two levers at your disposal, whereas I think in the financial services sector, in terms of financial services policy, it's a lot more complex than that. You have a lot more instruments at your disposal, potentially, but you probably have significantly less grasp on just actually how those work.

You know, we can have debates about raising taxes and whether or not that takes more revenue or less revenue and things like that, but, you know, by and large I think we kind of understand the parameters of fiscal policy, and I think financial services is not a black box but is a lot more uncertain and is a lot murkier, and in some ways we're dealing with tools that we have a pretty imprecise handle on. So I think that's an important thing to just say from the start.

Now, I think one of the things that is quite important, from my perspective as economic and financial counselor to the British Embassy, is that financial services are, in some ways, one of those things that we regard as quintessentially British. You know, if you guys think of the United Kingdom – and I hope you think about the United Kingdom sometimes – you know, you probably think about, I don't know, warm beer, you know, quaint sea sides and, you know, English tea and things, red buses, red phone boxes, the royal family. But sooner or later you probably think of the city of London and financial services and those types of issues, and I think that that is a pretty well ingrained part of our national characteristics.

The Chancellor of the Exchequer, George Osborne, not long after he took office he characterized this thing called the "British dilemma," which is if you have a big financial sector – and we do have a big financial sector, which I'll come on to in a moment – and you decide that you want to place new regulations and restrictions on that at a time when your economy is not doing as well as you would like it to do, how do you balance those conflicting forces? How do you impose those new restrictions, while at the same time ensure the stability and safety and soundness that was so obviously lacking in 2008 and 2009?

So, you know, in some ways I think this is something that all countries have been wrestling with, but in the U.K. it's an even more acute issue. It's something that we're even more sensitive to because of that big, dominant role that the financial services sector has played in the U.K. economy.

And I am an economist so, you know, what better way to emphasize that importance than with some great numbers? So there's a bunch of numbers in this chart, but there's just three things that I just want to take away from this chart. So there's a lot of powerful statistics about the importance of the financial sector to the U.K. economy.

In terms of our trading relationship with the rest of the world, it's the sector in which we have the biggest surplus, which we export a lot more than we import from the rest of the world. So it's really important to our economy. I think the financial sector, in terms of its contribution to the economy, takes up about 12 percent of GDP, or at least did at the peak of its activities before the crisis hit us.

Secondly, it's an incredibly international sector. We all saw in 2008 how interconnected our economies are through financial linkages, but if you just walk through the city of London, then it's not hard to kind get a flavor of that kind of international element. And just to kind of give you some basics, right, about 1,500 financial services firms in the U.K. have entirely or a majority ownership, and there's more foreign banks operating within London than really any other city in the world.

But at the same time, this isn't just about big banks and huge global institutions. It's also about what I'll sort of condescendingly call ordinary people. Lots of people have bank accounts. Lots of people have mortgages. Lots of people have perhaps car loans and other forms of credit finance.

And at the same time, a lot of people who aren't necessarily highly paid financiers, highly paid bankers that get those eye-catching bonuses, work in the U.K. financial servicers industry, and I think it's around about 2 (million), 2.1 million people who have jobs in the U.K. that are related to financial services, and that's in an overall working population of around 30 million. So it's certainly not insignificant.

So, you know, we don't just care about the financial sector because it lends to the rest of the economy and supports and fuels the rest of the economy. We mainly care for it for its own purposes, that it, itself, is a major contributor to exports, to GDP and to employment.

This chart here is just to kind of give you a bit of a flavor of the regional diversity of U.K. financial services. And I'm pretty most people in this room have probably been to London. Some people in this room have probably been to other parts of the U.K. But London, I think when we talked about financial services, is the first part of the U.K. that you're going to think of, inevitably. And obviously the city of London is a very important employer and a very important engine of economic activity in the U.K.

But I think not an awful lot of people know that our financial servicers sector is quite diversified regionally. And this chart essentially just kind of gives you a flavor, all these dots representing other centers where there is quite significant employment in financial services. So, for example, where I come from, which is the top half of this map, in Scotland, is about 150,000 people employed up there, mostly in Edinburgh. But all around the country, as you can see, there's a lot different parts, which have a big concentration of financial services activities.

And of those 2 million people employed in financial services that I mentioned at the outset, only about one-third of them are actually employed in the city of London. And, for example, the Chancellor of the Exchequer recently gave a big speech on financial services. He wanted to do that in a bank, but he didn't do that in a bank in the city of London. He went to – (inaudible) – to kind of give that address.

So, you know, I think people realize that the financial services sector is very diversified in terms of the products and services it sells. I think we probably all learned that sort of the nasty way after 2008. But in the U.K. it's not just about London. It's actually about the economy more generally, and about the country more generally.

Just finally – I was talking about the contribution that this sector plays to our gross national product, and this chart here on the left-hand side compares how much of the U.K. economy comes from financial services and how much of it comes from financial services in other economies. And as you can see, compared to really any of the other major G-7 economies, more of our economy is in financial services than here in the U.S. and Japan or in other compatible European countries.

And it's quite interesting when you think about linkages to some of these issues. Going back to my original point, I was talking about how I spend a lot of time thinking about financial services and I also spend a lot of time thinking about deficits and fiscal policy. The two are quite closely related on many levels.

In the U.K. case, the financial services sector has been a big payer of taxation over the years, and this chart here just demonstrates that. Around about 13 percent of our tax stake at one point was coming from the financial services sector. So as you can imagine, when the downturn hit in 2008 and 2009, the financial sector contracted sharply. Profits in the financial services sector dried up. It laid a lot of people off. The tax take from that sector contracted significantly as well, therefore compounding the fiscal problems that we were confronting in the U.K.

And there's an interesting point really about the makeup of our economy in the U.K. and whether or not going forward we want to go back to having an economy that has 13 percent-plus of GDP in the financial services sector. It's really important. We need a big, successful industry, but whether or not we want to go back to having too much concentration in that is an important policy issue, I think.

And just one other thing which isn't captured by these charts but I should just say at the outset because I think it's a very important context in understanding the severity of the crisis, in the U.K.

we had a much deeper recession than you had here in the United States and we're taking longer to get from that than you are here in the United States.

If you measure the financial sector in terms of the lending it was doing in 2007, 2008, the balance sheet of our banks was up to around about 500 percent of GDP, and you had a lot of lending here, which wasn't sustainable, but if you compare that 500 percent of GDP with what was going on in the U.S., the U.S. is only around about 100 percent of GDP. So again, when our crisis hit, I think we were impacted more negatively in the U.K.

And hindsight is always 20/20 but, you know, with those types of statistics, banking sector lending is essentially five times the overall economy, it's kind of not hard to see why we had such problems in 2008 and 2009, why we continue to really – well, maybe healing and getting out of this very, very slowly.

There's a lot of things I would say the United States is better than the United Kingdom in doing. One of those things is polling. And you have a lot more rich polling data in this country – maybe make an exception for Mitt Romney's polling team when I say that. (Laughter.) And so if I can ask you to suspend disbelief for a moment and just kind of pretend that these charts were about the U.K. – we're not a lot different. We speak the same language just about. (Laughter.)

But the point of these charts here – and I'm sure if we – if, you know, if there was U.K. polling evidence on this issue, few people like banks and it would show a pretty similar picture. In fact, I think, given what I know about my country and the country that we're in just now, I think in some ways it would be acuter or more pronounced. But it's not going to be a surprise to anybody that banks aren't very popular. Not many people really love them.

This chart here shows that, you know, at one time banks were doing okay, but since the crisis their popularity has absolutely plummeted. It's probably at rock bottom. And when you ask people their views, are they positive or negative, about the financial industry, they are resoundingly negative.

Why do I put this up? Because, as I say, going back to my point, this debate is sometimes oversimplified. It's about, oh, you're imposing costs on banks, and banks surely don't want that and they're all lobbying against that and doing everything they can to make sure that they are not placed under new constraints.

Well, at the same time, there is an incentive for banks to not go back to the world of 2007, 2008, and I think this chart here shows that, that there is some incentive there for the banking community to embrace change. And some of that might be cultural. Some of that may happen at the corporate level, and I'll come on to a little of that later on.

But from a policy perspective too, I think there's an issue there that you don't need to be a genius to see that there is a good rationale there for why we may want to have policy change at a banking level too. And, you know, I think – I don't think it's really good for any part of the economy, especially a part of the economy as important as the financial sector, to be registering positive approval ratings of, you know, about 20 percent – 80 percent of the people don't like you. That probably isn't a good place to be.

So, you know, I think it's just important to remember that. I don't think it's as simple as surely bankers don't want reform and they all want life to go on like as if it was 2006, 2007. I think that is a bit of an oversimplification.

So just to kind of just sum up this kind of first phase of the presentation, and just to kind of recap, we all had a big crisis – big crisis here in the United States, big crisis in the United Kingdom – and we're still dealing with that. You know, when we talk about the costs and benefits, the costs and benefits of the new regulations that we're imposing, I think we have very painful proof that the old system of regulation didn't work.

You know, in this country your unemployment rate went to about 10 percent. In our country, in the United Kingdom, at one point our economy was contracting by 10 percent. So to the extent that's the scorecard for the old regulatory system, you know, I think we need to look at other policies and other measures, so that's why we're here and ultimately why we're having this discussion today.

In the U.K. that's particularly challenging. We came from an economy which was lending five times the overall size of the economy, and at the same time it employs 2 million people and accounts for around about 12 percent of our GDP. So, you know, we have to be careful and balanced in doing this.

So I'm going to go on now and kind of talk about the different levels of reform and the different policy measures that were implemented in the U.K. I mean, as I said, this is not an area where you're going to have a nice little set of policies which are going to solve everything. You know, the crisis exposed so many flaws. Some of those flaws were imperfect governance. Some of them were amongst the regulatory authorities themselves. Some of them were in the robustness – or rather the lack of robustness within the financial institutions.

So, you know, there isn't, unfortunately, just a kind of nice set of tools that we can just pick up and implement and go home. You know, this is kind of complex stuff. So there's a number of kind of different levels that I'm going to talk through, and the first one really sets the foundation for all. And in case you're kind of looking at this chart and seeing that the heading of it is "Architectural Reform," and thinking that the United Kingdom has responded to the financial crisis by building a bunch of houses, that's not what I mean here.'

When I say "architectural reform," essentially I'm talking about the policy-making institutions, which is a sexy word for the regulators, to the extent that you can make regulators sexy. Here in the

United States you have quite a complex system. You know, you have the FDIC, who looks after bank deposits. You have the SEC on the securities side. You have the Federal Reserve. You have the Treasury. You have an even more complex system than in the U.K.

But in the U.K. in 2008, we have this tripartite system, which you may have heard, which essentially means financial policy was made by three institutions: the Bank of England, the Treasury Department and the Financial Services Authority, which actually no longer exists at this point.

Those institutions, between them, had overall responsibility for our financial policy. That set up was implemented I think in 1997. It came just after the Bank of England had given us independence for monetary policy. At the time it was thought that having overall control of monetary policy and financial stability would be investing too much power in one institution. So that was the rationale for moving away from that system and setting up this more fragmented system, the tripartite.

I've already told you just how bad the recession was in the U.K., so again, to the extent that you judge the success of that tripartite system by the performance of our economy, I don't think it did very well. But what were the problems with that? Well, you know, I think there were a number of problems with that, but they can be condensed into one or two.

Firstly, there were elements of arbitrage in our system. We talk about arbitrage in an international context in relation to financial services, about how we don't want financial institutions to be able to shop around the world for the easiest regulator, the one that's going to impose the least burden on them, and that's something that we've been trying to avoid through the G-20 and other fora.

To some extent, our accrually (ph) defined system meant that financial institutions could do that. They could kind of pick which regulator was going to give them the best deal. And obviously when you have a relationship like that, it's not necessarily the best thing for safety and soundness in the overall economy. So that was one problem.

Then more fundamentally there was this issue of what we can underlap. There were some things which all the three institutions – the FSA, the Treasury and the bank – had responsibility for, but there were other things that really none of them had responsibility for. And this important issue of who, at the end of the day, had responsibility for the overall soundness and stability of the financial system.

If you were to ask that in 2007, I don't think any of those institutions could have told you. And here we are five years later, still digging ourselves out of the crisis. And I think we realized that that was a real fundamental problem, and that was one of the first things that, before we did anything else, we had to get this right. We needed the right policy-making architecture, the right institutions with the right authority and the right relationships between them.

So now we have legislated for a new system. On the 1st of April, the Financial Services Authority was abolished, although all of its divisions really still exist as a new part of the Bank of England. So the Bank of England now has responsibility for our financial system. At the end of the day, if we have another crisis and somebody has to look at the systemic qualities of our system and those risks, then it's the Bank of England's job to take a look at that and to decide what to do. So, you know, ultimately if we have another crisis, the buck stops at the Bank of England. Somebody has been denoted as being responsible for that.

I mentioned that the FSA has been abolished. In some ways its successor institution, the Prudential Regulatory Authority, is now a division of the Bank of England, so there is that unitary structure, not two separate regulators anymore but rather an independent division within it.

And then on the overall systemic risk, how are we controlling for that, well, we've set up this new committee, the Financial Policy Committee. Some of you may have heard that in the U.K. we have a system of monetary policy making which is done by an independent body, the Monetary Policy Committee. And in some ways I think it seems quite logical to me, a few years on from the crisis, that shouldn't you have a similar set up to implement financial policy?

And that's kind of what the Financial Policy Committee is doing. A bunch of experts get together, assess risks in the economy, assess risks in the system – health and stability and those types of concepts – and ask themselves if there's anything they should be doing now. Just as an aside, one of the members of our Financial Policy Committee is Don Kohn, who used to be a deputy governor here at the Federal Reserve.

And I think one of the most interesting set of policy debates that we've had in the U.K. – and in some ways we're still having in the U.K. is it's all very well to have a Financial Policy Committee, but what do you give it in terms of policy instruments? How do you actually make financial policy?

And it's been looking at things such as varying the levels and the quality of capital it requires institutions to hold, depending on the leverage those institutions have, or depending perhaps on the sectors that they're lending to. If we see another build-up, for example, in real estate lending, for example, that could be something where it wants to take a more specialized, a more tailored approach to policy making.

So I think that debate is still ongoing, and I think, you know, that's something that we're going to have to think further about. But, you know, it raises some quite interesting both practical and philosophical issues.

And then finally, there's this new body. You know, the Financial Policy Committee and the Prudential Regulatory Authority are – they're looking at health ultimately, but conduct is also very, very important, not least of all in terms of the service that consumers have, consumers who don't have specialist financial knowledge. And that's why we've set up the Financial Conduct Authority, to ensure the good, proper, lawful behavior is adhered to at all times in the financial sector.

So that kind of sets the foundation. You know, we have the policy-making bodies that we need, but it's all very well having policy-making bodies. Isn't regulation ultimately all about telling firms and individuals what are the behaviors that they are allowed to do and the behaviors that they're not allowed to do? That's kind of what I think of when I think of regulation.

So in 2010, our government set up the Independent Commission on Banking. That commission had a mandate to go away and look at what structural and nonstructural factors in the U.K. banking sector and to ask in what way those structural or nonstructural factors could be injuring the stability and soundness of the financial system and, ultimately, the economy.

And the gentleman that we asked to do this was John Vickers, who used to be a member of our monetary policy committee and has a very esteemed career. So you may look at this and think, well, you guys have Paul Volcker to give structural advice on banking – and I'll come on, take a pass at that in a minute – and you know, do we just have to get a guy whose name begin – began with "V" and ended in "er", because you know, they sound quite similar? And isn't it interesting that one of them's called John and one of them is call Paul, does that kind of make them the kind of Beatles of – (scattered laugher) – financial regulation reform, hopefully without the dross of Paul McCartney's solo act for the last 40 years.

But anyway, John Vickers – he chaired this commission and he spent about a year or so kind of thinking about these fundamental issues. And he came back with a report, I think, in 2011. And Vickers' advice to the British government was ultimately, they choose ring-fence the retail side of banking for the more exotic, riskier parts of banking. So banks could ultimately still be unified in the sense that they're still one company, but the part of the banks that ultimately are so important to the soundness and safety and resilience of our system, the parts of the banks which ordinary people go and deposit their salaries in, those parts of the banks were not going to be exposed to the types of risks, and ultimately, the types of meltdown that we had in 2007, 2008.

Those banks would be ring-fenced off and they would be seriously restricted in the types of activities that they can do. The other parts would have more freedom to do other things, but would not enjoy the types of taxpayer guarantees and government guarantees that the ring-fence part would enjoy. And it's quite interesting, because I know in this country, there's been a big debate about the implicit subsidy that some of the big banks are perceived to enjoy because everybody thinks that the government will come in at the end of the day and bail them out if there's a problem.

And this is an important part of our approach to that problem, "too big to fail" and all that. If you separate off the part of the bank which is going to cause the panic and the pandemonium and the systemic risk from the part which is like to do more imaginative and exotic things, you don't necessarily annihilate that risk – I don't think it's possible to annihilate risk – but you significantly reduce it.

And if you look at information from credit rate agencies, there's some evidence from that that already, that implicit subsidy, partly because of some of these policies, hopefully because of some other policies, but that implicit subsidy is already gone then a couple of notches in the U.K. And that's something that we're quite happy about.

Now, you know, this is often compared to the Volcker approach that you're following in the United States, whereby you haven't got that ring-fencing of the two sides of a banking operation, but it has been required that the banks – (inaudible) – the proprietary trading part of their – of their activities.

And there's been a lot of debate and a lot of comparison kind of between the two approaches and is one approach better for one country and another approach better for another? You know, I think we would probably argue – we certainly would not argue – while we're all for coordination of regulatory reform and does not mean the whole country should be doing exactly the same thing.

I think in the U.K., we're hopeful that the approach we're taking will insulate the retail side of the banking sector more than perhaps the Volcker approach because it's not just proprietary trading that it – that it excludes as strong, but also other wholesale activities and other risky activities. So hopefully, there's a reason for thinking that it could be overall a safer approach, but there's important differences between the United Kingdom and the United States.

I think in the United States, there's a more historic separation between the retail and the nonretail sides of banking. And also, the United States is just a very different banking structure to the United Kingdom – something else I'll mention later on. In this country, you have hundreds of banks; you know, in the U.K., you know, we have five. (Chuckles.) So you know, our banking systems are quite different, structurally and behaviorally.

So you know, I think it is important to recognize that. And I don't think you should just compare and contrast the Vickers' proposals, the Independent Commission of Banking and those policies with Paul Volcker. I think you have to look at the whole suite of the Dodd-Frank proposals here and the other things that you're doing with the whole suite of reforms that's going on in the U.K.

One thing which our – Vickers' ring-fencing approach has been criticized about is whether or not it actually goes far enough – some people have made those arguments – and whether or not you actually can practically implement this ring-fence. When it comes down to it, ultimately, isn't the nonretail bank going to drag down the retail bank? Is there – is there really anything that we can do about that?

That's why the government has given itself the facility to separate off the two sides of the bank completely if it gets to a point where it feels that that is operationally required – this concept of electrifying the ring-fence, as it's called. So in introducing this legislation, the government's given itself the ability to do that.

So it can go further; this isn't necessarily the end of the road or the maximalist approach that we will take, but we're not going to require that electrification to occur right now. It's something which would only occur if the evidence warranted it, if the stability of the system was at risk in such a way that we had to actually implement those measures too.

It's important now to remember, and sometimes we do forget, that we are a member of the European Union. That's important from a number of levels. The most simple way to, I think, motivate this part of the discussion though is to remember that the U.K. is a member of the European single market. And to have a single market really in anything, including finance, you have to have common rules. You can't have companies in Germany operating on different rules and different regulations to companies in the United Kingdom, because that just would not be a single market.

And you know, a powerful example of kind of how this operates and how Europe influences our financial system is in 2008 when we had to take some financial institutions into public ownership. It was important that we got the approval of the European Union to do that because that could have been perceived as us trying to give competitive advantage to British companies, by injecting state aid into them. And that was quite an important part of the process by which we took those companies into public ownership.

I've talked about the complexity of financial services. One thing that's potentially even more complex than financial services is Europe. So when you put the two together, then you can give yourself a really pretty bad migraine pretty quickly. But in terms of just sticking to key basics, which I'm going to try to condense this slide down to, one of the very important policy areas which Europe is leading on is derivatives reform.

I think that's one of the areas where – on some of the reforms, there is congruence between the United States and the United Kingdom, not least of all the requirement of central clearing of standardized derivatives contract. That's something you're doing here in the United States and it's something we're implementing in the European Union, and I think something which actually took effect last summer in the European Union.

There are some quite complicated and controversial cross-border issues around derivatives, which I'm sure some of you are aware of. Our chancellor was one signatory of a letter that went to Treasury Secretary Jack Lew a couple of weeks ago, which raised some concerns on this issue. And so you know, while there are some areas of coherence of congruence on this, there are also areas which give us rise for concern, where we think coordination could be breaking down in a worrying way.

Basel III is, I'm sure, something that you're aware of – the notion that banks should be required to hold more capital than they did in the previous crises, so they're safer and have a bigger buffer, should another crisis happen. In the U.K., that is something which is ultimately handed down from the European level. But in the U.K., I think in terms of the capital requirements that we're imposing on institutions, there's a bit of an element of kind of Nixon goes to China in relation to it.

What do I mean by Nixon to China? I forget sometimes that people might be too young to kind of remember that reference. In 1972, I think, your 37th president of the United States, Richard Nixon, made a trip to China. Why was that a big thing? Well, it was the first time a modern U.S. president had gone to China.

But what was most significant about it was Richard Nixon was seen as this big anticommunist figure. And why is this big anticommunist figure not only going to China, but be the first guy to actually do it and to have kind of opened that door? And then there was this kind of tension between the kind of anticommunist characteristics of this president and the fact he was making friends with communists.

And in the U.K., you know, we're often seen as the defender of banks. We're the country which has the biggest financial sector. We are often the country which is arguing for perhaps a more pro-market, liberal attitude in some financial sector issues when it comes to European negotiations.

I think we've actually adopted the opposite approach on Basel issues in the context of the European debate. We've actually been arguing that Basel's all very well – I think those standards are good, we welcome them, we hope other countries implement them too – but we want to go further than that. And we want to impose even tougher requirements on banks, in particular the ring-fence retail banks if we have to. And that's something that we're going to be taking forward in coming years.

Now, something which has been in the headlines recently has been bankers' bonuses. And actually, as part of these capital reforms, the European Union also introduced some new regulations about bankers' bonuses. There's already been a lot of reforms in bankers' bonuses in terms of how to determine how they're governed, the say that boards have in how much a banker gets paid at the end of the day.

The European Union did not think that went far enough, and has now passed regulation which ultimately constrains a financial institution from paying a bonus to a banker of really any more than 100 percent of their salary. If you think back to the kind of golden days of the last decade, in the 1990s, I'm sure you're all aware of the kind of size of bonuses that many in the financial sector were enjoying.

So compared to those bonuses, that's quite a come down, that's something that we opposed in the European debate. Why did we oppose it? Well, we think ultimately there should be a single market – single global market in the pool of skilled financial sector labor. If you work in a bank in London, lots of global companies operate in London, operate in New York. There may be operational need for you to move somebody from London to New York. When you do that, it'd be nice to be able to do on the same compensation structure with the same rewards package and not to worry about differences in the different countries, different pay regulations, which mean you cannot make that transition.

And more fundamentally, you know, in a world of global finance where it's not just about New York and London and those established capitals, but it's also about countries like Singapore, then we're worried that that's going to impede London companies and other European companies from competing with countries like Singapore and other emerging financial centers. So that really places a serious hindrance on companies to recruit and retain skilled labor when those impediments are being imposed.

And there's infinite number of cartoons – I don't think anybody really feels sorry for bankers and the fact that they're going to be receiving smaller bonuses – but this chart here captures, I think, one element that we see in the – in the problem. And in the left-hand side pillar of this cartoon, a banker's grinning because he's enjoying a very big bonus, and he's got a reasonable salary, but it's only about one-third the size of his bonus. Somebody comes in and slaps these new pay regulations on him. And the final – the final picture then, the bonus has gone back to what the salary was, but the salary's gone up.

The problem with that is that salaries are less flexible. If your company does well then you can pay a good bonus. And the next year, if it doesn't do so well, you can pay a smaller bonus. It's pretty hard to cut somebody's pay. So once you increase their salary, and perhaps increase it significantly to compensate them for the shortfall in bonus, it makes it much harder for you to be nimble and flexible in terms of how you retain and reward your staff. So that's kind of something that we're very concerned about. It's something which, of course, we lost a debate on in the European context.

And then finally I haven't said much about tax in this presentation; I kind of figure financials – financial regulation is difficult enough. But I'm sure most people in this room are aware that the European passed – well, certain countries it the European Union have recently passed this financial transactions tax. I think it's round about 0.1 percent on transactions of securities and bonds and other assets.

Again, not something which we've been imposing; it's something we've taken quite a strong case against. I think it's something which the United Kingdom and the United States stand as one on. I think the United States also has concerns about this, not least of all because of this extraterritorial application in the way it's designed. And we're actually making a legal challenge against that in the European Court of Justice. So that's one of the things that we're going to be thinking about in the coming months.

Another important dimension to this whole debate is resolution. So ultimately, what do you do when a bank fails? How do you allow a bank to fail? How do you wind it down without creating mass hysteria and panic, as is what is the case that happened in 2007 and 2008? And it's very important to remember that banks are going to fail. I think in a functioning market economy, it's very important that banks are allowed to fail. That's the whole thing that we're trying to get away from, this notion that they're too big to go under.

But if they are going to fail, you want them to be able to fail in an orderly way, that they don't set fire to the entire economy, which is what we saw in 2007, 2008. So the U.K., we've set up new institutional mechanisms to allow that to happen. And part of the institutional structure around that is this newly created special resolution regime so we know ultimately, if the decision is taken to wind up an acting financial institution, who's responsible for that and just how we actually go about it.

And there's a number of different options there, a number of different policy tools that we may seek to deploy when we have to wind down a company. A very important concept in this debate, which I'm sure again you're very familiar with, is this notion of bailing – the idea that taxpayers had to bailout financial institutions in 2007, 2008. Surely it's not the taxpayer who should be having to do that; it should be nonsecured creditors, it should be the people with deposits which are insurers who have to do that.

And we've, through a statutory means, essentially required hat to happen. So if a bank goes into liquidation in the future, it's not the taxpayer who's on the hook, it's ultimately those with the big deposits or those big creditors – the people who ultimately have the ability and resources to screen, monitor and evaluate the health of banks, rather than the everyday taxpayer who's doing that.

And there's obviously a very important international dimension to that. Just before Christmas, the FDIC in this country and the Bank of England in the U.K. got together and they published a paper which essentially addressed the questions of how do we do this when a financial institution operates across borders?

And I think some elements of the U.K. approach and some elements of the U.S. approach – such as this notion of a single point of entry, trying to manage the affairs of a company through its parent holding company if it gets into trouble – such as that, I think there's a broad congruence between the U.K. approach and the U.S. approach too. And again, it's a very complex and thorny issue, but those debates and discussions are continuing as we speak.

Finally, Libor was obviously a big issue in 2012. I think it's a slightly separate issue. It didn't cause the financial crisis; it didn't cause the recession. It is related though because I think one of the things that people have worried about in recent years is banking culture, what the crisis told us about behavior and standards in the financial sector, some of which could potential even be illegal.

And last year, when it came to light that traders had been manipulating this very important international interest rate benchmark, Libor, and they've been manipulating that to both flatter their own position in credit markets and for their own private gain, that just compounded the already negative perception people had of the financial sector and of bankers.

So in the U.K. we had this – (inaudible) – what to do about that so it doesn't happen again. So I think it is related because it's ultimately about the behavior and the culture of banking, which we're kind of thinking about more generally. And there was a sequence of conclusions to that report, not all of which I can go through just now.

But one of the things that, you know, we're seeking to improve is – Libor manipulation was made possible because ultimately it wasn't based on real transactions which were taking place in the markets. It was taking – it was based on the fact that traders could just say what they were trading out and they could do that in a manipulative way for self-gain. It's quite hard to get away from that because the transaction data is hard to get to and there's not that much of it, but that's something we're going to look towards using more of in terms of setting Libor benchmarks.

But at the same time, as we kind of think of other benchmarks – and other benchmarks are important to ensure that there's competition I this market, we want to do that in an international way because Libor – and one of the reasons that this issue was so big last year is Libor is not just a big thing in the United Kingdom; it's a big thing in global financial markets around the world. So I think any solution or any alternative then proposed has to be based on international improvement, international perspective.

Then finally – you know, just kind of coming back to some of the points I was making at the start, you know, we want to get our economy growing again. You know, the U.K. economy has been, by and large, stagnant in recent years, and we want to get it back to a growth rate of 2 percent or more. I think it's fair to say that financial stability is probably a prerequisite for that. It's not going to deliver it on its own, but to the extent that sometimes we have this false debate between regulation and growth. And I think that's a really kind of false dichotomy.

I think the deep recession and economic contraction at 10 percent at one point in 2008-2009 isn't what we'd call an economic success story. So I don't think anybody can argue that the previous system we had of (what appears to be a lightened ?) regulation delivered sustainable and positive growth rates.

One thing that we've also been doing in the U.K. on the monetary policy side has been thinking about how, at a time when you're trying new regulation, you also encourage quite risk-averse companies to get money out the door. And we've had various schemes to try and promote that. One of them's been called the funding-for-lending scheme, which is essentially government guaranteeing lending so it makes it cheaper for banks to send out loans, to mortgage share – mortgage holders to small businesses and to homeowners. And there's some evidence that that's been taking down the rate of interest rates at which the financial institutions lend to the general public and to the corporate community.

A third thing that I would just emphasize: I said earlier that in this country you have a more fragmented, competitive, diverse banking system. In the U.K., ultimately, five of the players, I think, dominate about 85 percent of the retail market. In the United States, you've probably got a reasonable degree of concentration at the top, but you have a large community bank presence. And when I got here in 2009, and the FDIC would publish that list of failing companies on a Friday, I was shocked that there was that many companies that could – that even existed; far less that could actually go bust every week. And that's something that we want to think about.

How can we improve the competitive nature of our banking system? We have some obvious tools to do that because we took some companies into public ownership. We don't have to sell them off as we nationalize them. We can sell them off in chunks in a more, kind of, fragmented, broken-up, less concentrated way, and that's something that we might think of. But there's other tools as well that we're thinking about promoting competition in the banking sector through.

In the U.K., once upon a time, it would take you ages if you decided you weren't happy with your bank and you wanted to set up a new bank account. That would take you months and months. And if it takes months and months, then you're probably not going to do it. In the U.K. now, it should only take you seven days between deciding you want to leave your existing bank to join another bank and to have all your payments and all your automated payments and things like that taken with it. So that should hopefully be making it easier for the banks in the U.K. to compete with one another.

I wouldn't be doing my job as a U.K. diplomat if I didn't come to Congress and give a shout-out for the prospective trade agreement which Europe and the United States are talking about forging; this notion of something somewhat unpoetically called the TTIP, the Transatlantic Trade and Investment Partnership, which is something that we were delighted the president including in his State of the Union address.

What exactly that includes in terms of industries and services – you know, what are we going to free up in terms of trade? We're really keen to see financial services be included in that – in the regulatory coherence chapter. I think everybody occurs that market access – just allowing one company to come and operate in the United States and allowing U.S. firms to go over to Europe and set up shop – I think everybody agrees with those principles, but if you're going to do that, then you should be looking at harmonizing regulations so it's easier to accord with U.S. regulation and then set up shop in Europe, and automatically accord to those regulations. That's the more difficult ask, and that's something where there's more debate, there's more diversity of opinion, but it's something that we really want to see in there and that we're appreciating quite firmly to see in there; not least of all because we think if you exclude things at this stage for negotiations that you've got going, then it's really, really going to deprive this process of something that – (inaudible) – desperately needs.

I mean, this conclusion really just kind of goes through the number of different policy tools that I have described, so, you know, I'm not going to kind of read it out. When you talk about financial reform, it's kind of very easy to get into list-making, and I was quite keen not to get into the business of list-making even though my final slide is effectively a list. (Scattered laughter.)

But I think the one remark I just want to kind of conclude on, and something that I kind of mentioned earlier, you know, I said that this is really complex and, you know, one of the good things about doing economic policy and financial policy is there's kind of lessons in one sphere which kind of can inform parts of the other sphere. And, you know, our economy's struggled in recent years, but I don't think that takes away from the fact that compared to 20 or 30 years ago, we knew a lot more about the conducts of monetary policy and interest rates and the types of things your Federal Reserve does to provide liquidity and to keep the economy going. I think we probably knew a bit more about that. And I think on fiscal policy, as well, we probably knew a reasonable amount despite the big debate in this country and to some extent the big debate in the United Kingdom. It's not without controversy, but, you know, I think there's a reasonable body and foundation of, kind of, literature and knowledge on those issues.

I think on the financial side, I think it's still early days, and it kind of feels that on financial issues, we're kind of where the monetary policy – or the fiscal policy debate was around about in 1977 without the awful clothes that people were wearing then. And this is going to take quite a while and, you know, we're certainly not going to be doing it overnight. Some of the policies I've described to you today won't be fully effective until 2019, and there's still quite a long way to go. And I think there's definitely a long way to go in terms of the international coordination and the international discussions. So, you know, this isn't a set of perfect answers, and I think there's probably going to have to be a bit of to-ing and fro-ing. And we're going to have to have all new evidence and maybe re-evaluate policy tools. But hopefully it's a good start.

Thank you very much.

(Applause.)

MS. OPPENHEIMER: (Background noise) – talking about answers, probably brings us to a good point of question-and-answers. Thank you, Peter, for your presentation.

I will just go ahead and ask the first question, and I was wondering if you could talk a little bit more about the Financial Conduct Authority. I know that that the FSA was divided into two different authorities, right, and the other one being the Prudential Regulation Authority, which you talk about in your – in the list here. Can you talk a little bit about the dichotomy between the two and what they'll be responsible for?

MR. MATHESON: So, that's a good question, and I have to kind of quantify some of this – some of this in my mind, itself. And I think it's probably – it's probably easier to quantify it from the perspective of what the FCA might – will do.

So, the Prudential Authority is ultimately the institution responsibility for the – responsible for the financial health of banks. It goes into banks, looks at the quality of the capital of their holding; asks those types of questions. So, it's more an institution based on the notion of soundness. And the way I kind of see it is the Financial Policy Committee does macro-soundness, overall system, and then the Prudential Regulation Authority is thinking about the overall soundness of individual institutions – the capital that they're holding, the quality of their assets, the loans that they're making. So, it has that kind of one-on-one relationship with the financial institutions. But the Conduct Authority, as it – as it kind of indicates, is more, I think, about behavioral things. And mis-sellings is probably a good example. You know, we had scandals in the 1990s in the U.K. with pensions mis-selling. That would be an issue that the Financial Conduct Authority would seek to identify and kind of weed out and make sure that didn't harm that. So, you know, I couldn't kind of give you a kind of – kind of completely kind of scientific explanation of the – of the two, but I see it as kind of health and behavior.

I think in terms of the FCA – not the FCA overall, but I think within it, there will a part of it in which we'll think about consumer-related issues. You have a consumer body in this country, and then we have a body which thinks about those issues in the FCA, too.

MS. OPPENHEIMER: Great. I will open it up to the floor. We have a mic coming over.

Q: In your presentation, you were talking about how the United Kingdom would like to see stronger capital requirements than are in Basel III. I was wondering if you were familiar with the bill that was recently introduced by senators Vitter and Brown, which would require 15 percent capital requirement of every capital to consolidate its assets. And I was kind of curious what your thoughts would be on that sort of policy.

MR. MATHESON: Hmm. I mean, it's a good question but, I mean, I probably shouldn't kind of get into the kind of political complexities of, kind of, U.S. policymaking, and should probably kind of – kind of keep to U.K. policymaking. But, you know, this is kind of a multilayered issue. There's kind of different ways that you could kind of come at this.

And, you know, we were just talking yesterday in the office because, I mean, it's quite complex when you – when you look at it because there's the basic requirements that all banks should hold more capital. I don't think that in itself is a particularly controversial notion. But if you want to go beyond that, then how do you go beyond that? Do you just look at those ring-fenced banks that we have there? Do you just look at the sustainment of the important institutions, which are obviously very important? And there's a number of other angles to this. And actually when you kind of break it down, there's kind of a lot of kind of different ways that you can approach this.

But, you know, the way we're doing it – and coming back to the point that our policy in this is ultimately established in Europe and we have to do which – what is within European rules – you know, what we – what we've got is permission to kind of go beyond. It doesn't necessarily mean we're going to kind of go to the maximum threshold and impose the most onerous requirements that we'll be permitted to do. But what we've essentially secured is the right to do that if we decide that we want to do so for certain institutions.

Q: I realize you could probably do another briefing of – I mean, of the length that you just finished on my question, but obviously the housing market is very closely related to recovering from the financial crisis, so I was wondering if you could just touch very briefly on how the U.K. has addressed that problem.

MR. MATHESON: I mean, again, a number of ways. We had – it's very interesting if you compare the U.K. recession and the U.S. recession because I think we felt equal amounts of pain but in kind of different ways. And, you know, the unemployment situation in the United States is more acute than in the U.K., whereas on – in terms of just output of GDP and things like that, we did – we did worse.

You know, the housing crisis and the falling house prices that we had was pretty bad, but I don't think it was as bad as it could have been. And the decline from the peak of house prices in about 2007, 2008 to where they eventually fell to was probably less than it was nationally in the United States. And one of the things that we were quite pleased with in the U.K. was that compared to previous recessions, we didn't have as many people go into what we call negative equity, or what I think you call underwater, such has been the case in previous recessions. And I think part of that was just the promise of the housing market, and part of it was probably better management of the – of the problem; that people weren't just kind of thrown to the wolves and – thrown to the dogs.

And I think the housing market, I don't think it's – I don't think there's necessarily evidence it's turned back up, but I think there probably is evidence that it has at least – has at least stabilized. And, you know, that will be quite important to the recovery, so, yeah.

And we have – you know, we've had certain micro initiatives which, again, have been kind of aimed at trying to get money out the door and to try and do some of this. And one of the initiatives in the chancellor's budget was kind of designed around it. You know, I talked to funding for lending; government using itself as a guarantor to encourage companies to put money out the door and to lend a bit more. That was essentially extended to the housing market in the chancellor's budget in

March, and the rationale for that being that this is one important part of the recovery, but not necessarily the only or most important part.

Q: In response to the recession – in response to the recession, the U.S. – this is kind of a simplification, but the U.S. basically spent the stimulus package, cut taxes; ultimately there was some quantitative easing, which was a version of spending. And the view is, is that the U.K. basically went more into an austerity mode there. And I'm just wondering if you think that if the U.K. went on a different course that their economy would be better. This has been the debate here in this country whether spending was the right thing to do or whether austerity was the right thing to do.

MR. MATHESON: I mean, it's – if this stuff occupies 50 percent of my time, that probably occupies the other 50 percent of my time.

The first thing I would say is that, you know, different countries probably have to follow different paths, and, you know, that has very much been the case. It's not the case that the U.K. necessarily embarked on austerity in 2008. I think, you know, it was in 2010 ultimately when the coalition government came in, because we spent an awful lot of money, too, in 2008 and 2009, and I think we also (called about ?) a stimulus at the time.

But the thing that people lose track of in terms of U.K. fiscal policy, I think, is that, you know, we don't have this huge deficit because of the financial crisis. You know, we have the huge deficit that's been built up over many years. And the last time I think our government took in more money than it spent was 2001. So, and those were pretty good years for the economy. So, from a structural perspective, you know, why wasn't the government saving a bit of money then? So, when the crisis came, and we spent even more, that's why we ended up with a deficit of 12 percent.

Now, a deficit of 12 percent in the context of the United States is probably more sustainable because you have this thing called the United States dollar which, you know, for the foreseeable future, people are always going to probably want to hold. We don't have that safety (bucket ?). In addition to that, we are also part of this economic system called Europe. And I'm sure you've noticed that there's been quite of bit of things happening on the continent in terms of their fiscal position and how markets have responded to that. So, I think that's a – that's an additional pressure.

So, there's different situations in both countries. We'll never know what the counterfactual is. It's good grounds for thinking that our economy would be, you know, in an even worse state; you know, something more – (inaudible) – some of the continental European economies had we not established credibility early and in terms of the fiscal course.

And just the final thing I would say is U.K. and U.S. policies are different. If you actually put them on a chart, they're not quite as different as perhaps some of the – (inaudible). It goes back to my point about some people have these two extreme notions that you can either regulate your financial system or not regulate your financial system. And, you know, you're shrinking your deficit, too, and I think probably by more than we are this year. So, you know, it's important to look at the facts that, you know, overall we're going to do more; we're doing it in a more front-loaded, ambitious way. And the overall path we're taking now is actually not totally dissimilar.

MS. OPPENHEIMER: Anyone in the back?

Q: Peter, just one last question. You mentioned the U.S.-EU trade deal and the financial services component of that. Can you just talk a little bit more about the – some of the more opportunities that that agreement could bring to that sector, as well as some of the challenges that folks in this room are just going to have to think through?

MR. MATHESON: Oh, that's an – that's an absolutely excellent question. And to be honest, it's one that I find quite frustrating because if you're – if you're talking to people about free trade, it's quite important – (inaudible) – if you're talking to people about trade and investment partnership, you know, it's really important, I think, if you can point to the products and services that will be – that will be regulated and that will be traded ultimately if you kind of sign the agreement.

I think it's a bit premature to actually get to that point, given we're still discussing what's in scope and what's not in scope. So, it's actually a quite difficult one, and, you know, this is not – you know, given this is going on on at the same time that there's other regulatory debates, you know, it's probably something that I probably shouldn't say too much about. But, you know, our kind of first objective ultimately between now and July is to get agreement that we should include financial services in terms of regulatory coherence, harmonizing our regulations within this deal.

Once we get to that point, then we can start talking about the specific products and services that we can open it up and harmonize and trade. But I think to get there, we kind of have to do the legwork to actually get people to agree to keep it in. That, right now, from my perspective, is that the financial crisis is my number-one policy priority.

Q: Can you –

MS. OPPENHEIMER: Last question.

Q: Can you – can you talk briefly about the U.K.'s concerns with the cross-border derivatives rules and what the U.K. is doing on derivatives?

MR. MATHESON: So, I'm sure people saw that we were the signatories to a lecture the other week. This was a lecture which was signed by about 10, kind of, finance ministers, policymakers in Europe and in other jurisdictions. That lecture went to Jack Lew; it went the week of the G-20. I don't think I'm divulging any state secrets if I kind of say it didn't go down quite the way we wanted it to go down.

And, you know, as I said earlier, kind of hindsight is 20/20, but this has been quite a strained issue for us. you know, our ultimate concern is that a set of rules has been devised for U.S. firms and are being imposed in a pretty extraterritorial way on other firms. And they're being done in such a way that doesn't allow U.K. firms and European firms to comply with European regulation. And then to have that be the way that we adhere to U.S. regulations, the so-called substitute of compliance approach; that's kind of what we want to see and that's kind of what we want to promote. We kind of feel the path that we're on just now isn't going to permit that, and that's going to make it very difficult.

Going back to this point about trade, it's, you know, a bit alarming to me that while we're talking about opening up trade in other products, this risk's (preventing ?) that and actually making it a bit harder for some companies to do that. And we've heard some anecdotal evidence of some companies not transacting with U.S. counterparties because they don't want to have to sign up in accord to the – (inaudible) – rules taking place.

So we're kind of very concerned about it and, you know, there's still negotiations and, kind of, discussions going on. but, you know, I think that letter – although the optics – the politics of – (inaudible) – weren't perhaps what we desired, I think this is still a pretty good articulation of our position.

MS. OPPENHEIMER: Well, thank you so much for coming here today. And thank you for all joining us this afternoon, and we will see you at our next event. Thanks so much.

(END)