HOUSE OF LORDS

European Affairs Committee

Corrected oral evidence: UK-EU financial services

Tuesday 5 April 2022

3 pm

Watch the meeting

Members present: The Earl of Kinnoull (The Chair); Baroness Couttie; Lord Faulkner of Worcester; Lord Foulkes of Cumnock; Lord Hannay of Chiswick; Lord Jay of Ewelme; Lord Lamont of Lerwick; Lord Liddle; Lord Purvis of Tweed; Baroness Scott of Needham Market; Viscount Trenchard; Lord Tugendhat; Lord Wood of Anfield.

Evidence Session No. 6 Heard in Public Questions 79 - 92

Witnesses

I: Michael Dobson, Chairman, Schroders plc; Stéphane Boujnah, CEO and Chairman of the Managing Board, Euronext.

Examination of witnesses

Michael Dobson and Stéphane Boujnah.

Q79 **The Chair:** Welcome, everybody, to this hybrid session of the House of Lords European Affairs Committee. This is a public evidence session in our inquiry into the future of trade in services between the UK and the EU. It is the last evidence session but one; we will hear from the Minister shortly after Easter. I extend a particular welcome to Michael Dobson, chairman of Schroders, and Stéphane Boujnah, CEO of Euronext.

This is a public evidence session, so we will be taking a transcript, which we will send to both of you. We would be very grateful for any corrections that need to be made to it as it is the basis on which we will write our report, which we expect to have about half way through June. Time is precious. I ask that both questions and answers are kept reasonably crisp. Before I begin, I declare my interests as set out in the register of the House and, in particular, that I own shares in Schroders plc.

I start by asking both of you for your overall assessment of what changes have taken place in the trading relationship in financial services between the UK and the EU since Brexit, and whether that compares well with the various predictions made at the end of the transition period, in particular how it has affected your businesses, which are really quite different. I begin by asking Michael Dobson to respond.

Michael Dobson: It has had a very limited impact on our business for a number of reasons. Generally, in relation to asset management, the delegation rules enabling you to manage money globally on behalf of global clients mean that Brexit for the asset management industry has had a very limited impact.

For us specifically, we have a €200 billion Luxembourg fund range and we have 200 people based in Luxembourg. It is in no way a letterbox-type operation. We have extended the regulatory permission for our Luxembourg business not only to deal with mutual funds, which is what it has dealt with historically, but to contract directly with EU institutions that may feel they want to contract with an EU as opposed to a UK entity. We have made our European entities branches of our Luxembourg operation. I think in our case one person has moved from London to continental Europe as a result of Brexit.

We continue to think that London is probably the best global financial centre for the asset management business. I do not think it has hindered our ability to attract talent. We have not seen any client loss as a result; in fact, we have continued to grow our business quite significantly, including with clients from the EU. It has had pretty much zero impact, which was broadly in line with our expectations, but not in line with the expectations of other financial institutions, which were more cautious and negative. We did not think it would have a major impact and it has not.

The Chair: Stéphane, yours is a very different business. How are those questions for you?

Stéphane Boujnah: Brexit had a relatively small direct impact on our business as we did not run any meaningful regulated operations in the UK pre- and post-Brexit. However, it has had an indirect impact on some strategic decisions of the company, which we will cover later on, such as the migration of our primary data centre from the UK to Italy, and the European expansion of our clearing business. The fact that the UK was no longer part of the EU was one of the factors in those decisions, but it had limited impact on operations.

I do not know whether you want to cover the jobs part of the discussion now, but it is clear that in reality the number of people working for Euronext in London has increased since 2016 through a combination of organic growth of individuals who do commercial coverage of decision-makers in London and the consolidation of businesses and assets that we acquired in London that are now part of Euronext. Organically, there was a small growth of our teams and two acquisitions where there was significant growth of our teams based in London.

The Chair: We will come to a lot of the detail that both of you have talked about at a high level later in the evidence session. Is there truth in the observation that there is a symbiotic relationship between commercial businesses, manufacturing businesses in particular, in the EU and capital markets in London? Is that a symbiotic relationship?

Michael Dobson: I think it should be. London is clearly the deepest and broadest capital market in Europe, if not probably one of the two premier capital markets in the world, and it benefits European companies to be able to access that capital market. It is a massive centre for global asset management. We manage £750 billion. Two-thirds of that money comes from clients outside the UK; it is money from America, the Far East and Europe looking to invest in global markets. We want to invest in European capital markets and the bonds and equities of European companies.

For European companies accessing finance, London continues to be a major benefit, and for global investors wanting to invest in leading European companies via an asset manager in London, for example, that is unchanged. It is symbiotic and it should remain that way. Some of the bigger concerns about whether that link might be broken post Brexit have thankfully subsided, at least so far, and one would hope that, in a way, mutual self-interest continues to ensure that that is the case.

The Chair: That is very helpful. Stéphane, what do you think about symbiosis?

Stéphane Boujnah: I am not sure I totally agree with the representations made a few seconds ago. We are operating in a very specific segment of capital markets, which is the equity market. For that purpose, following the consolidation of Euronext's markets, which historically have operated the exchanges of Amsterdam, Brussels, Paris, Lisbon, Dublin since 2018, Oslo since 2019, and Milan since 2021, we have about 25% of the shares traded in Europe, including the UK, on

Euronext platforms. We are seeing a shift in international listing towards Euronext platforms, and companies that in the past would have considered listing in London or on the Euronext platform are now looking more at continental Europe and the Republic of Ireland.

We need to segregate segment by segment the changes in what you characterise as symbiosis. It is a more nuanced and differentiated situation, as we see it. We are in a situation where aggregate market capitalisation of companies listed on Euronext platforms is around €6.5 trillion. The aggregate market capitalisation of companies listed in London is approximately €3 trillion, so there have been some changes in that respect.

The Chair: Thank you very much.

Q80 **Lord Wood of Anfield:** Welcome to you both. We have been taking a lot of evidence about the question of the movement of jobs to which Stéphane has already alluded. It is not just the movement of jobs but the movement of activities in general and of infrastructure. My question is to both of you, but perhaps Stéphane can start.

To what extent have you moved people in your organisation from the UK to the EU, or even outside the EU, following Brexit? We have heard some evidence that the numbers, so far at least, have been less than was perhaps anticipated. Is that an assessment you share and, if so, what explains it? Both of you have alluded to this, but maybe you can expand on that.

Stéphane Boujnah: I am not sure that I can comment on the gap between what was expected and what is happening in reality, because it depends on expectations. What I can tell you about Euronext and what we observe around us, as I said a few minutes ago, is that, as far as Euronext is concerned, we have increased the number of people working for Euronext in London, both organically and through acquisitions, and we continue to believe that a significant number of decision-makers for critical parts of our businesses will remain located in London for the foreseeable future. Therefore our client coverage teams remain based in London, and we have not transferred jobs from London to the continent or to the Republic of Ireland.

That said, in a directional manner we observe that some of the decision-making centres of our clients have moved to the continent—Amsterdam, Paris and Frankfurt—and we are creating new positions to address those very critical clients, for example those on fixed income, through teams based on the European continent and in the Republic of Ireland.

Michael Dobson: As I said earlier, I think one person moved from London to Europe as a result of Brexit. It is true that we have added some new or incremental positions in the EU. That does not represent any loss of jobs in London; it is an incremental build-up of our business in Europe, as we wanted to build out the Luxembourg base I spoke to earlier, but it is pretty marginal.

The results for the industry have been considerably less bad than some people suggested they would be in the lead-up to the Brexit referendum. There were estimates of double what has happened in job losses from the City. Why is that? It is probably a bit of exaggeration in the lead-up to the great decision, which was not uncommon. The relationship afterwards has probably been better than people might have expected, certainly some of the more pessimistic ones, and much of the business being done in financial services in London continues. For both those reasons, the experience has probably been quite a bit better than was forecast.

Lord Wood of Anfield: Is there any evidence of other EU cities developing more infrastructure, perhaps at London's expense? People have talked about Amsterdam, for example. Are there parts of financial services where you think that is true?

Stéphane Boujnah: Yes. To be totally accurate and precise, there were a lot of comments about Amsterdam-based volumes of trading above those of London. As you know, all the UK-based multilateral trading facilities, the MTFs, have had to establish a presence in the territory of the European Union in order to continue to serve investment firms based in the EU. Aquis chose Paris; Cboe and Turquoise chose Amsterdam. When you consolidate the trading volumes done by Cboe and Turquoise in Amsterdam and those of Euronext in Amsterdam, you get a total volume that is above London's. I am not sure that it tells us a lot about changes in competitiveness.

What is more accurate in the dynamic is what is happening on the listing front. As I said a few minutes ago, more international companies, which in a previous world would have considered London as a venue for their international listing, are now considering Euronext, but it is a combination of factors, including Brexit. The single liquidity pool of Euronext today is massively different after the acquisition of Dublin, Norway and Borsa Italiana. It is significantly deeper than it was years before Brexit, so there is no straightforward distinction between the two factors of the corporate dynamic and competition between Euronext and the London Stock Exchange Group versus the sole Brexit impact.

On the previous point, perhaps I could add some nuances to the comments on jobs. The reality we are observing today is a combination of Brexit plus two years of pandemic involving people working from home extensively. The way the finance world is operating now is significantly different from what it was in 2016, 2017, 2018 and 2019. On the dynamics, we have to be cautious about mere observation of the number of jobs moving from one place to another, because now plenty of people want to work from home and a significant number of new jobs are being created that were not in London in the first place, so tracking and forming an accurate view is extremely complicated.

Lord Wood of Anfield: I take the point about how difficult it is to make comparisons, given the time lag and multiple factors; I understand that. Your organisation made an announcement a year ago about moving your data centre from Basildon in Essex to Bergamo. Could you give us a sense of whether that was a Brexit-related decision? Does it illustrate anything more broadly?

Stéphane Boujnah: In part, but only in part. The core data centre of Euronext in 2000 was in a suburb of Paris. In 2011, it was moved to Basildon in Essex because at that time London was the largest financial centre in the European Union, so it was a natural move. We decided to move it back to the European Union somewhat because of Brexit and because we needed to have the core, physical infrastructure of the group in a regulatory environment that was totally predictable.

Predictability of the direction of travel in regulation at the moment is not totally stabilised and certain, but there were compelling reasons that had nothing to do with Brexit, such as the fact that we wanted to internalise that business within Euronext and we had the opportunity to do it in Italy. We wanted the core data centre to operate in a country where we had a large market, hence the Borsa Italiana market. We had the opportunity to move the facility to a 100% green data centre, because the new data centre we are going to operate is powered by hydro-electricity and photovoltaic panels. There were plenty of good industrial reasons in addition to something that sounded natural, which was having the core data centre within the EU where we have all the other markets of Euronext.

Michael Dobson: Where jobs have moved, they have moved to different places: Dublin, Amsterdam and Frankfurt, for example.

The Chair: We are coming to that very question right now.

Q81 **Lord Tugendhat:** That is indeed the question I am about to ask. Stéphane, clearly there has not been a movement out of London to one other place; there has been movement to a variety of different places, so there has been fragmentation. I would have thought that up to a point both London and the EU have been losers from that. Dublin and Amsterdam have gained bits and pieces of business but, taking the overall picture, I would have thought that London had been something of a net loser, although not tremendously, and the EU as a whole has not been a particular net gainer; it is just that individual centres have picked up a bit of extra business.

Stéphane Boujnah: I would like to underline one point. Most of our financial organisations have operated for at least six to 12 months, sometimes 18 months, with the vast majority of our staff working from home, so the mere concept of working from a particular location has to be revisited. The reality is that, post pandemic and post Brexit, and post reinvention of the way financial institutions work, the concept of having teams located in a single location is not as relevant as it used to be. In reality, distributed but integrated and highly interconnected financial centres are working extremely well together, such as Dublin, Amsterdam, Paris and Milan for us, and Frankfurt for others. They are creating exactly the same quality of service as was supposed to be produced by the intimacy of having all the relevant market participants in a single location. Covid, as much as Brexit, has changed the way finance has operated for the past two years.

Lord Tugendhat: Do you want to add anything to that, Michael?

Michael Dobson: I hope it is a temporary phenomenon. I am a great believer in the benefit of people working together as opposed to remotely, and of face-to-face engagement as opposed to emails and so on. Certainly, in our case, we are seeing working practices returning to a pre-Covid situation, which I think is an enormous benefit for staff and clients.

Fragmentation is a real point. I do not see a European financial centre dominating in the way that London has in the past. There are costs associated with that, as your question implies, because we want deep liquid markets to transact business. That reduces clients' frictional costs, trading costs and so on. The danger is that when you have fragmentation of that kind you do not get depth and liquidity. It remains an advantage for London and it is a potential cost as things are pushed out to fragmented centres elsewhere.

Lord Tugendhat: The conclusion I have drawn, and I would be grateful if you would comment on this, Stéphane, is that although we can see no alternative to London within the EU, London remains what it was while we were in the EU: namely, the largest and most important financial centre in Europe. Other centres over time may rival it in one or another sector of the business, but the idea that there would be the development of an EU financial centre to rival London, at least in present circumstances, looks unrealistic. Would you agree with that comment?

Stéphane Boujnah: I think it is too early to tell.

Lord Tugendhat: Would you agree with that comment, Michael?

Michael Dobson: I would agree. We publish a global cities index annually, which tries to identify and rank the best global cities using four metrics: economics, environment, innovation and transport. For the second year running, London comes top. It is partially subjective, but if you look at rankings by other organisations, London is right up there. Today, there is no question; no single European city comes close to it. When I was on the board of Deutsche Bank in the early 1990s, I remember talking about "Finanzplatz Frankfurt". The absolute objective was to build Frankfurt into a major competitor to London. It has not happened in 30 years. It may in the future, but personally I do not see signs of it. I would not be surprised, looking forward—obviously impossible—if the current situation did not persist: namely, a number of important financial centres in Europe but no dominant centre to rival London.

The Chair: You mentioned that you have 200 people in Luxembourg. Does that make you a very big employer in Luxembourg, or is that an average size of office?

Michael Dobson: It varies completely. We are pretty big. It has been a big strategic thrust of ours for many years, way predating Brexit, and has therefore put us in a very good position. It is not a letterbox company, which the EU does not want to see.

The Chair: I realise that. I just wondered whether it represented a lot of employees in comparison with the local market there.

Michael Dobson: I see what you mean. Yes, but many of them come across the border. They are not natives of Luxembourg. They drive in to work and then go back across the border.

Lord Tugendhat: If you look at London's position in the world as a whole vis-à-vis New York, Singapore and so forth, to what extent do you feel that London outside the EU has lost a competitive edge vis-à-vis other international financial centres, or do you feel that over time it will compensate in other ways?

Michael Dobson: I think that vis-à-vis New York we have lost a bit. Stéphane referenced several times listings in London. That is partly Brexit related and partly not Brexit related. Lord Hill's report tried to address many of those issues. They are not by any means all related to Brexit, but on balance there has been some marginal loss to New York, for example, and possibly some centres in Asia, which was always inevitable. My point is that it is at the margin, and the City has found other ways to compensate for it.

Lord Jay of Ewelme: I would like to pick up a point made by Michael Dobson a few minutes ago. You said that you thought there would be a return to pre-Covid patterns of work, which flies in the face of what one is reading an awful lot about at the moment, which is that the effect of Covid will be different patterns of work in different sorts of industries. Is what you were saying a particularly Schroders-related thing, or do you think there will be a return throughout the financial sector, at least in London, to how things were before Covid?

Michael Dobson: I do not think it will be exactly like it was. There will be more flexibility and more working from home than there was pre-Covid. There was some in our case, but it was very limited, and I think there will be more of that. We are seeing a return. People want to come into the office and interface directly with colleagues; they want a change of scene. I think that is a very good thing for everybody concerned, not least clients. I hope that it continues, and I think it will over time.

Q82 **Lord Liddle:** In this inquiry we have had a lot of discussion of equivalence, to which the City seemed to attach a lot of importance at one time, but the only area where the UK holds equivalence from the Commission is in the area of central counterparties. Stéphane, why do you think the EU made an exception with central counterparties, and what do you think will happen eventually in this field?

Stéphane Boujnah: I am not sure that I want to comment on what is on the agenda of the European Commission and how it balances its various policy objectives between operating continuity versus protecting some form of control of financial stability. As far as Euronext is concerned, we have no clearing activity in the UK. We do not trade OTC derivatives, hence the LCH Ltd discussion or anything related to the clearing of derivatives is less relevant to us. We have made the decision over time to migrate our own clearing business to the fully owned clearing operations of CC&G, i.e. Euronext Clearing, but I do not want to comment on what the next step is in the European Union's agenda.

The concept of open strategic autonomy, which means that 450 million Europeans, with the companies that need to be financed in the EU, and the savings of European households, require some form of autonomy or control in the financing and transformation of savings into investments, is of paramount importance in the agenda of the European Commission. The way it translates into equivalence decisions is about nuances in the balance between financial stability and operating continuity.

Lord Liddle: How would the goal of strategic autonomy affect your business? You must have a view as to whether you think it is a good thing or a bad thing.

Stéphane Boujnah: I think it is a good thing. An open strategic autonomy ambition is a good thing for the European Union, because Brexit has happened. What we understand—I say this in a very humble and respectful way—is that the UK Government at large is trying to design what will be the new regulatory framework after taking back control of the financial regulations. They are designing the shape of financial regulation of London-based financial markets in global Britain, but we understand that it is work in progress and it is driving significant debates.

In parallel, the European Union has to develop its way of remaining competitive, and delivering for savers, investors and companies solutions that are consistent with the overall economy of the EU. Being in a position to control the future of financing of European organisations makes perfect sense. That is one illustration of the concept of open strategic autonomy. Again, it is up to the European Commission and the policymakers to shape it more precisely, but it is an opportunity for all of us on the European continent and in the Republic of Ireland.

Lord Liddle: Michael, does the equivalence question affect your business in any way? Does it matter to you if we do not get any more agreements on equivalence with the Commission?

Michael Dobson: We generally do not rely on equivalence to conduct our core business of managing assets. I think that goes for all asset managers. The two principal reasons for that are, first, that the main piece of EU legislation that covers funds' activities—the UCITS directive—does not contain any equivalence provisions.

Secondly, for institutional mandates, for example, delegation is a standard practice whereby you can delegate portfolio management to other centres. That has continued. It is a very well-recognised practice. Any change vis-à-vis the EU and the UK would presumably impact the United States, Japan and anybody else running money for, say, an EU client. It would materially disrupt a whole set of global relationships, requirements and opportunities for clients.

For those two reasons, equivalence is not central for asset managers. For us specifically, we have the Luxembourg point that I made earlier. It is a much less important factor for the asset management industry.

Lord Hannay of Chiswick: We have been struck when we look at the numbers of equivalences by the very big disparity, the big imbalance, between those granted by the Commission to, let us say, the United States, Singapore, Japan or Switzerland, and those to the UK. I understand what you are saying and I do not want to direct the question just to asset management, but to what extent do you think this imbalance, if it already exists and if it is continued in the future, will put companies in the UK at any kind of competitive disadvantage when competing with centres that have a big range of equivalences?

Michael Dobson: Outside asset management it will be a serious issue. The EU has taken quite a legalistic approach to equivalence, as opposed to looking at equivalence of outcome, which to me would be the more important place, but that is not what has been driving it. It has not impacted my industry, but it is a much bigger issue for investment banking, commercial banking and other areas.

Stéphane Boujnah: As CEO of Euronext, I am sure you will understand that I am not in the best position to comment on the implications of the competitiveness of a London-based operation. I am not in a position to answer your question.

Q83 **Lord Jay of Ewelme:** I have a couple of questions for Michael Dobson. We have heard in the course of our inquiry that the British Government are exploring a range of quite significant reforms to the substance of the UK's regulation of financial services. Are there any regulatory reforms that you think will bring particular benefits to the British financial services sector? The converse of that is whether there are missed opportunities in the Government's plans for reforming the retained EU law governing financial services. Are there opportunities and are there things that have been left out?

Michael Dobson: A range of reviews has taken place or will take place, which we welcome. We were strong supporters of Lord Hill's review into the listing requirements, and the subsequent more detailed proposed changes to the rules. Similarly, we support the proposed changes resulting from the wholesale markets review. We welcome the proposed review of Solvency II, which we hope and assume will lead to our clients being able to invest in a wider range of very important asset classes, such as private assets and infrastructure. We think that a lot of this is definitely moving in the right direction. We assume that divergence between the EU and the UK is inevitable, but in our view it is important that it happens knowingly rather than by accident and that we avoid a change for change's sake approach.

As regards missed opportunities, there are always opportunities. We believe that more work could be done more rapidly on how we communicate with investors. The FCA has done some quick fixes to the PRIIPs arrangements, which are very welcome. In our view, it was a very clumsy set of requirements based on formats, for example, that required paper documents when most people look at things on their telephone or iPad. We think there are opportunities where the UK can go faster in this direction, but we believe that on balance it has been a good start. We will diverge, but let us do that in a managed, knowing way, as opposed to just for the sake of it.

Lord Jay of Ewelme: Is the failure—perhaps "failure" is the wrong word—to do certain things that you have outlined simply the result of time and the capacity to change things, or would you want the Government to be rather more ambitious than they have been so far? How might things be better from your point of view?

Michael Dobson: It is partly time and partly just the scope of what is on the FCA's agenda. I think that has a lot to do with it. One could be more ambitious. I think it is both.

Q84 **Baroness Couttie:** Michael, given the disparate nature of many of the suggestions for reform, what do you think regulators and the Government can do both operationally and politically to make sure that reform does not turn into an endless process of piecemeal implementation?

Michael Dobson: It is a very important point, and for a group like ours the cost of regulation and complying with it in maybe 15 different global centres is very significant. Recently, there has been a proposal to bring the UK regulators together to give participants a heads-up about what is coming down the pike, so there is much more joined-up thinking in that regard and we welcome that significantly. I think it can go further and consider not only major UK initiatives but, given the international nature of most UK-based firms, what is happening in the EU and elsewhere in the world. That would be very helpful.

We think that financial services regulators need to take account of other initiatives that may affect financial services firms, such as pensions, housing, energy, data and all those other areas. I think it is a useful start, but it needs to be pushed further forward.

Baroness Couttie: Do you think the industry is being listened to enough?

Michael Dobson: The industry is always listened to.

Baroness Couttie: Is it listened to and acted on?

Michael Dobson: It is not necessarily acted on.

Baroness Couttie: Do you think you are in a good place on communication with government in taking forward your perspective in putting together the reforms, and the way the reforms are put together?

Michael Dobson: I think we are in a reasonable place, but there is no question but that it could be improved. It is a huge agenda and it is not always joined up. As I said earlier, we have to comply with multiple different requirements in different places, not just the EU but particularly the EU, and it is a challenge—no question—and there is a very significant cost associated with that.

Baroness Couttie: Stéphane, looking at it from the EU perspective, how do you view the UK Government's plans for regulatory reform and the potential consequences for EU-UK trade? To what extent in reality are the parties moving in a very similar or even the same direction?

Stéphane Boujnah: I have a European flag in my office, but I am not a spokesperson for the European Union. It is more up to UK supervisors, regulators and policymakers and not to me as CEO of Euronext. I want to make two general comments.

The difficulty at the moment is that everyone on this side of the channel and in the Republic of Ireland appreciates that on the occasion of Brexit there was a moment of reset and reboot of financial regulation in London, and an opportunity perhaps to "clean up" things that would have been revisited anyway, irrespective of being part of a bloc like the European Union. That is interesting. As Michael said, it is a complex process because we start from very sophisticated financial regulation, which is extremely good and strong under the supervision of the FCA, but anything you may consider changing has to be somehow predictable.

The first concept I want to insist on is predictability. Operators across the globe do not know how far and how fast divergence will go on the London side. That is the first point.

The second point is that, because it is a dynamic process, the European Union is integrating more and more the concept of competitiveness. It is revisiting the way financial regulation is being produced to make the process more agile and reactive, to make sure that, in an environment where a different approach is going to be developed in London, the European Union has a framework to produce competitive rules, again within the framework of the same constraints, which are a balance between investors' protection, customers' protection and issuers' protection. The fundamental drivers of financial regulation do not change because of Brexit; it is just that the priorities and where you put the needle between conflicting objectives might be revisited at local level. It is predictability and competitiveness.

Q85 **Viscount Trenchard:** As part of the Future Regulatory Framework Review, the Government are proposing the transposition of the primary and secondary legislation governing financial regulation on to the regulators' own rulebooks in the interests of flexibility, agility and proportionality. This will be different from the EU model where either ESMA or EIOPA is responsible only for implementation of regulation, not for making it. Michael, from your perspective what are the potential challenges and opportunities of such a reform to the regulation of financial services?

Michael Dobson: The main challenge is the sheer volume of legislation that needs to be moved into regulation. Clearly, there will be opportunities to tailor rules as they are translated across, but we would be keen to ensure that we do not change just because we can. There is a lot of onshore EU legislation that has to move from the statute book to regulation. We need to recognise that a lot of it is not perfect—for example, parts of AIFMD, which we did not like when it was imposed on us by changes in EU rules. We have suffered the cost of implementing that, and undoing it now would cost more, for little benefit in our view. One has to be quite cautious about that.

Q86 **Viscount Trenchard:** We have heard that the transposition would allow for a more flexible, agile and proportional approach to regulation, but it raises concerns about scrutiny and accountability, whether to government or to Parliament. Do you have a view on how the Government should reconcile those objectives?

Michael Dobson: We support the proposal that much of the detailed regulation should be the responsibility of the regulator rather than enshrined in legislation. We think that parliamentary direction of the regulators in terms of focus and prioritisation is very important, as well as holding them to account on how they have pursued and achieved the desired outcomes.

We believe that the expertise in the House of Lords should be harnessed, and we are quite attracted to the idea of a Joint Committee of both Houses with a remit to scrutinise and hold regulators to account. We think it is important to have a debate on where financial services regulatory policy stops and public policy starts, because regulators are becoming increasingly drawn into areas such as sustainability, diversity and inclusion, which to my mind are public policy.

Viscount Trenchard: Stéphane, what do you think will be the result of the UK and the European models being fundamentally different as regards the regulators' responsibilities?

Stéphane Boujnah: I do not think it is an issue, because the discussion we had a few seconds ago is a quasi-political or philosophical one. Where do you put the needle on rule-making by elected representatives of the people, or Parliament in general? How much should they delegate to executive orders, level 2 regulations, self-supervision, et cetera? Each political framework decides the right balance between what you gain in agility and what you lose in accountability and democratic input.

For numerous reasons, that would take too long to describe now, within the European Union there has been a view that certain things have to be politically discussed in the European Parliament, certain things could be delegated to the European Commission, and others could be delegated to specific authorities. I think divergence could be an issue on the point we discussed earlier—the substance of the regulatory framework diverging so much. When it comes to the way that rules are made or produced, the UK democracy is vibrant and you will find a solution that you consider appropriate, as much as the European single market, to build capital market union and to build strategic autonomy that has found a way to produce its own rules.

Q87 **Lord Faulkner of Worcester:** My question is for Michael, but I would be very happy to hear from Stéphane, if he has an opinion. Staying with the future regulatory framework review, I want to ask about the suggestion that the Financial Conduct Authority might add to its remit a growth or competitiveness requirement. Do you think that is a good idea?

Michael Dobson: I think it is a very good idea and it should be a primary objective. Competitiveness is very definitely not about lower regulatory standards, and I see no conflict between looking after the interests of consumers and London being a very competitively successful global financial centre. In fact, I think the two are aligned. There is a perception in some places that it is an either/or. I do not believe that at all. The more competitive the City of London is, the more competitors you will have there, the more choice there will be and the lower the cost to customers. I believe it should be a primary objective of the regulator.

Regulators in other countries manage this very well. Australia, Singapore, Hong Kong, Japan and Malaysia have competitiveness and growth as a regulatory objective. Singapore is often referenced. We have the greatest respect for the MAS in Singapore. It is a very tough regulator, but a regulator that is clearly tasked with promoting Singapore as a financial centre. It has been a very successful model and a very tough but commercially minded regulator. The requirement is a highly respected regulator, and that is what we need. It should not be a secondary objective; it should be a primary objective of the regulator.

Lord Faulkner of Worcester: Thank you for a very clear answer. You have answered my supplementary question perfectly, because I was going to say that when the regulators came before the Committee they favoured having competitiveness as a secondary objective, but made it clear that that should be subordinate to their consumer protection objective. They did not like the idea of having competitiveness as their primary objective. I am not going to ask whether you agree with that because you have just told us that you do not. Why do you think they take that view?

Michael Dobson: I think that is the culture of the regulator, particularly since the financial crisis. Many of the countries I mentioned have adjusted their regulatory objectives and the implementation thereof since the financial crisis, but without abandoning competitiveness. I think there is a greatly reduced interest in competitiveness, and defending and promoting it, at the regulator. It is a cultural issue. I suspect they have a strong belief that the two are incompatible and one has to take prominence. I do not agree with that. I think the two are entirely compatible.

Lord Lamont of Lerwick: One of our regulatory witnesses disagreed very strongly with that line, and emphasised how much integrity and honesty were in themselves powerful marketing tools. Growth might be associated with higher risk; higher returns, higher risk. If growth is put above integrity and honesty, might that not be a big minus?

Michael Dobson: I do not think anybody is suggesting that growth is above integrity and honesty.

Lord Lamont of Lerwick: But if it is a primary objective?

Michael Dobson: Integrity and honesty are clearly also a primary objective. Competitiveness and where these regulations leave London as a competitive global financial centre have not been front of mind for regulators for 10 years or more. I think that is a great mistake. I do not think it is incompatible with their consumer protection mandate.

At Schroders, we try to generate value for shareholders. That is an absolutely fundamental objective, but we also put our clients front of mind in everything we do. The two are not incompatible. We will not succeed for shareholders if we do not succeed for clients. We know that absolutely. There is no conflict; there is complete alignment of interest, and I think it is very similar in this case.

Lord Lamont of Lerwick: Is it not different for a practitioner and a regulator? I am sure that with a firm like Schroders we can rely on your integrity, but for a rule-setter does integrity not have to come first?

Michael Dobson: Of course, but integrity was not part of the question. I am not saying that you do not have to have complete integrity. Of course you do; that goes without saying. I do not see a divide between the interests of customers and having a highly successful financial centre. Customers want to do business in a highly successful financial centre. That is where they want to be, because that is where the best people are, where the greatest depth of markets is, and where there are the finest prices and the least frictional cost. They want to be there, so I see the two as absolutely intertwined, and integrity is at the heart of it.

Lord Faulkner of Worcester: Stéphane, do you have an interest in joining this discussion? We have an issue that is clearly dividing regulators from practitioners.

Stéphane Boujnah: As CEO of Euronext, I am not sure I can contribute to a debate that is all about UK regulation and you, as Members of Parliament, deciding where you want to put the needle between growth, competitiveness and expansion of London-based financial institutions, or London-operating financial institutions, versus the protection of investors, insurers and retail investors. Any policy-making compromise has to be developed within your environment.

What I can tell you is that there are similar debates on the other side of the channel and in the Republic of Ireland. Brexit has created an opportunity for the London authorities, regulators and policymakers to revisit what are the best financial regulations going forward, hence a situation that could create a new competitive environment. Therefore, the concept of making sure that EU capital markets union remains competitive and a driver in the production of the rules has created exactly the same debate. It is framed and less open because there is no total reset or reboot moment on the EU side, but the issues are there. What I think as a citizen is irrelevant for the purpose of this discussion.

The Chair: You undersell yourself.

Q88 **Lord Purvis of Tweed:** My question is directed primarily to Mr Dobson. I noted in your 2021 annual report that in the significant risks section you cite UK-EU relations. What would remove those risks?

Michael Dobson: If we had a settled agreement on all the areas that have not yet been fully settled, and an MoU, not that I think that will necessarily be massively ground-breaking. There are still some open questions, as we discussed earlier, and as and when, hopefully, they are finally resolved, the risk reduces.

Lord Purvis of Tweed: It is obviously sufficient enough for you to put it into the significant risks category in your annual report. I do not know whether it would be easier for you to annotate those risks and maybe come back to the Committee in clear terms on what they would be. I would find that very helpful.

Michael Dobson: We will do that.

The Chair: Thank you very much indeed.

Lord Purvis of Tweed: Perhaps I might almost reverse that question and ask Mr Boujnah whether in equivalent reports UK-EU relations are categorised in risk sections.

Stéphane Boujnah: Not anymore. The reality is that for us, as I believe for many financial institutions, Brexit risks are behind us and we are now focusing on building the capital markets union and building strategic autonomy in competing against US-based institutions. Competitiveness has to be considered in making sure both that international and global flows continue to be part of the financing of the EU, companies and households, and that there is a critical mass of players in asset management, market infrastructures, investment banking and insurance that is commensurate with the size of the EU market. That means competition with all sorts of players, including very dynamic and ambitious US players. In this context we are very focused on those issues, and the future of the relationship with the UK is not a risk factor.

Lord Purvis of Tweed: I did not quite catch the first part of your response. Was it "absolument" or "absolutely not"?

Stéphane Boujnah: Absolutely not; it is not a risk factor. It used to be operationally, when we had to organise the migration of trading from UK-based clients and make sure that they were properly organised to relocate on the European continent and in the Republic of Ireland, but that is no longer an operational risk or a risk of any nature.

The Chair: The transcript taker will be grateful for that clarification.

Lord Wood of Anfield: I do not want to take up any time. I wanted to support Lord Lamont's point. It seems to me that customer interest precisely lies in a regulator not taking growth into consideration, as someone who lived through the 2008 experience in government would confirm. I do not want to delay us any further.

The Chair: Thank you. We come back to Lord Lamont.

Q89 **Lord Lamont of Lerwick:** Over time, it is probable that there will be a divergence between regulation in the EU and regulation here. What do you think the risks and benefits of that likely or probable divergence will be?

Michael Dobson: As a global business operating in multiple jurisdictions, we cope with multiple sets of rules around the world. The more different regulatory regimes we face, the higher the complexity and the higher the cost. We are strongly in favour of more global convergence and we are pleased to see the commitment of the UK authorities towards leading global co-operation and standard setting.

We think that going forward the UK can take advantage of greater agility in rule-making and benefit from being closer to the market. That will inevitably lead to some divergence as we are no longer in the room as the EU develops its policy, but we think that such divergence should be carefully managed and not happen by accident, as it were, with an understanding of the implications for people like us of compliance with multiple sets of rules. It will require close co-operation and monitoring by the UK authorities of what is happening in the EU, and learning from each other. The most important thing is to ensure that regulation is grounded in strong international standards.

Lord Lamont of Lerwick: Could I put that question to Stéphane as well?

Stéphane Boujnah: Brexit was all about creating divergence; that was the purpose of the project, if I properly understand it. In that respect, the EU is a divergence taker, not a divergence maker. The reality is that divergence between the two sides in rules and supervisory approach will likely happen. It means that the vision of European capital markets over the last two decades will not hold true. This is a fact. The risks are fragmentations, but fragmentations of flows have already started. The risks are incremental costs on the financial markets. It seems to me—I am not a UK citizen—that, as in other areas, there is a cost of Brexit. There is a cost to financial markets through fragmentation, and there is a risk of regulatory arbitrage for third-party players.

The opportunities are for the British parties to assess. Flexibility and agility are probably part of the benefits, but from our point of view on this side, divergence means more accurate attention to competitiveness, to make sure that Europe is equipped to address the need to finance its growth for transforming households' and companies' savings into financing for growth in terms of both debt and capital.

Lord Lamont of Lerwick: Michael, to what extent has the UK's departure from the EU altered the EU's direction of travel on regulation? Will it become more protectionist in your opinion?

Michael Dobson: I do not think it will. On the contrary, I think the EU will look at its own interests and be quite responsive to them. I suspect that almost the opposite is the case. This may be more a hope than a belief, but I do not think we will see, certainly in my industry, the EU working actively against the UK in that regard. If it did, not only would it disadvantage its own consumers; it would lead, in terms of delegation for example, to major disruption for the US and Asian-Pacific countries as well. Personally, I think it is unlikely.

Lord Lamont of Lerwick: Stéphane, do you agree with that answer? Do you think the absence of the UK from the rule-making bodies in the EU will not have an influence and will not change attitudes? As I understood you earlier, you expressed yourself as feeling that autonomy in financial services was quite a desirable role.

Stéphane Boujnah: The fact that the UK is no longer round the table changes a lot when it comes to financial regulation, but that is the reality. I do not think that the European Union is tempted by protectionism. The phrase used to create the framework of what we are trying to achieve in the European Union is the concept of open strategic autonomy, which tells us a lot. There is no growth and success among financial markets and capital markets in the EU without open financial markets. That is for sure. Attention to making financial markets competitive so that Europe does not end up being a continent of finance takers but also a continent of finance makers is important.

You must understand that the main difference between the pre-Brexit world and the post-Brexit world is that in the pre-Brexit world having London as the largest financial centre of the European Union was something like a natural specialisation, and it was okay. Post Brexit, Europe has to make sure that within the European Union there is full architecture, from a regulatory and an operating point of view, to allow for a situation where Europeans have some form of control over key pillars of the financing of EU economies. It has both to be open to be efficient and to be part of a construct where the vision of strategic autonomy, with strong insurance companies, asset managers, global banks and global market infrastructures, is part of the agenda. That is what open strategic autonomy is all about when it comes to financial services.

Q90 **Baroness Scott of Needham Market:** Stéphane, could you identify for us areas of future regulatory change that the EU is considering where you could imagine that EU interests and UK interests would diverge? Looking at it the other way, where do you think alignment ought to continue or be developed? Do you think it is important that the detail of the regulation and the law remains aligned, or will it be sufficient if the outcomes of that regulation are agreed on, leaving each jurisdiction to come to its own legal framework?

Stéphane Boujnah: The answer to your second question is relatively straightforward. When rules are similar, they nevertheless remain different. You cannot have a set of similar rules. Our societies are similar. The need to protect consumers, to make sure that issuers of access to capital and debt and investors are operating in a very agile way, the issues we have been discussing this afternoon, are addressed in exactly the same way in the European Union. What will change is where you put the needle between those two elements. There will be divergence, but it is relatively unpredictable on the UK side, because it is for you to decide where you do it.

The various reports Michael referred to are very powerful and interesting, in particular the report of Lord Hill, but the EU has an agenda. This agenda is the capital markets union. Everything is known and we have a full set of regulatory moments. There will be a review of the Listing Act to create a single prospectus in the European Union for IPO purposes. There is a review of clearing; there is a process that would lead to some form of single supervision of capital markets in Europe, more or less similar to the process that led to the banking union.

These things will happen and they will be driven by political debate in Parliament, the proposals of the Commission, the inputs of the supervisory authorities and debates between Member States. That has a dynamic that is totally independent of whether or not it will converge with the UK's own agenda. Of course, co-operation and all that is useful, but it will be extremely complicated to achieve convergence when the framework for convergence, which was the European Union, no longer exists. I am sorry to state very basic facts and I apologise for phrasing them in poor English, but there is a limit to constructive ambiguity.

Baroness Scott of Needham Market: That is helpful. Thank you. There is absolutely no need for you to apologise for your English. Michael?

Michael Dobson: Given a shared heritage of regulation going back 40 years, it is not surprising that many of the same issues are being reviewed in both places—wholesale markets, MiFID, Solvency II, long-term asset funds and the EU equivalent and so on. Areas of divergence are coming through. Some of them are not surprising; the UK may have compromised when it was part of the EU. Some of them are good, but we want to avoid change just for the sake of it.

In terms of alignment on the details of regulation or on the outcomes, we would much prefer it on the outcomes, but I do not think we are going to get there. I suppose we have no control over that. There are aspects of

AIFMD, for example, that we did not like, but we have complied with it and there has been a significant cost to the industry in so doing. I suppose we are saying that we have suffered the costs of implementation, and undoing it would cost more for little benefit. I think one has to have a nuanced approach to some of these differences.

Q91 **Lord Foulkes of Cumnock:** Good afternoon, Mr Dobson. Has Brexit provided you with exciting opportunities for innovative development in new areas?

Michael Dobson: That is a very good question.

Lord Foulkes of Cumnock: It is not one that was on the list. I notice that you have answers for those, so I thought of a different one.

Michael Dobson: As I said right at the beginning, I do not think it has hugely impacted our business. Our business has continued to grow. We have launched a lot of new products, many of which are sold into the EU where there is significant demand. We have acquired companies in Europe since Brexit, so in that sense I do not think it has had an impact on our opportunities.

Lord Foulkes of Cumnock: What about green finance, fintech or cryptocurrency?

Michael Dobson: We are not in crypto. We are in renewables in quite a significant way. Very recently, we expanded significantly through an acquisition in that area. On the one hand, I do not believe that Brexit impacted that, as we would have done it anyway, and, on the other hand, I do not think Brexit held it back.

Lord Foulkes of Cumnock: Could we take a lead in, say, green finance? Are we doing that?

Michael Dobson: Do you mean from a regulatory point of view?

Lord Foulkes of Cumnock: Yes.

Michael Dobson: We could, but it comes back to a lot of what I have said. The more important thing is to co-operate with regulators in the EU or elsewhere so that it is done in lockstep. These are global businesses, so one wants as far as possible a global template for regulation of them. I do not see it so much as taking a lead as working with partners to try to ensure that we have the best new regulatory rules for some of these new areas and that they are consistent across different regions.

Lord Foulkes of Cumnock: Stéphane, do you see the United Kingdom taking a lead in any of these areas—green finance, cryptocurrency or fintech?

Stéphane Boujnah: I do not know, because the facts are very difficult to assess. I can answer your question in two ways. On the pure innovation front, there are plenty of initiatives on both sides of the water. Clearly, the fintech world is booming in the UK as well as across various financial centres in the European Union. There are two areas where the European Union has made changes to regulation to facilitate innovation. One is a distributed ledger technology pilot regime to create a framework for sandbox initiatives in blockchain for real. The second is a new piece of regulation for markets in crypto assets to allow for some form of proper regulation of crypto assets.

Climate and green finance is an area where commitment in the European Union is extremely strong, as is the commitment of the UK Government at large, as I understand it. It is definitely an area where co-operation makes a lot of sense in the vision of unleashing equity to finance huge capex requirements for energy transition. Those objectives are totally aligned in the UK and the rest of the EU. That translates into the development, at least in the EU, of indices to help investors identify proper ESG vehicles where they can invest. The UK is doing exactly the same, with the same philosophy and the same types of solutions.

Perhaps one area of collaboration is on the reference points for the definition of what is green, what is brown and what is black, where the EU has deployed a process with a taxonomy that helps guide investors and financials in the green transition. It is important for Europe at large, by which I also mean the United Kingdom, because in this type of transition, which is more about deep society and deep civilisation, we are together; we are on exactly the same agenda, so it could make sense for us to have stronger co-operation on a referentials framework for ESG and green finance.

Lord Foulkes of Cumnock: Do you think the European Union and the UK together are leading the world, or should be or could be leading the world, on green finance?

Stéphane Boujnah: I think so. I am more familiar with the EU green agenda than I am with the UK Government agenda, but what I have read of the commitments, public statements and the focus in the policy mix on the basis of public information seems to indicate that there is total alignment. We can definitely lead because the two societies and the two peoples have the same preferences on climate change.

Lord Hannay of Chiswick: On the point that was made about perhaps working very closely together on some of these new areas, will the famous but hitherto stillborn memorandum of understanding between the EU and the UK on financial services help to nurture that kind of working together, or would it be irrelevant?

Stéphane Boujnah: This debate is up to the supervisors, regulators and policymakers, not to me as CEO of Euronext. Co-operation is always better than non-co-operation, but it is not for me to say how public authorities should organise themselves and arbitrate between their objectives and the grand scheme of things where current discussions are taking place.

Michael Dobson: We do not feel that the delay has impeded it very much. I think informal contact can often be less—

Lord Hannay of Chiswick: The point I was making was related to new areas where you would hope to avoid damaging divergence. Will the existence of the MoU, and the structures that would come to life if it came to life, be useful?

Michael Dobson: I am sure it would be.

Lord Hannay of Chiswick: Thank you.

Q92 **Lord Hannay of Chiswick:** I want to switch completely to data adequacy arrangements. As you both know very well, at the moment they are covered by the fact that the UK remains in conformity with the GDPR, and data adequacy has been recognised unilaterally by Brussels. To what extent would the areas you work in be adversely affected if that data adequacy lapsed for some reason or another, either by a decision in Brussels or an action in the UK that precipitated a decision in Brussels? Would it be seriously damaging to the way your businesses operate, or not?

Michael Dobson: In our view, it would not; we do not see a major risk of disruption from that. In general, we do not hold personal data for the underlying investors in our funds and we do not process it on a cross-border basis, so in our view that would not be a problem for us.

Stéphane Boujnah: From my side, it is a very similar answer. There is no issue for Euronext as we do not transfer personal data related to market operations from the EU to the UK.

Lord Hannay of Chiswick: What you both say is interesting, because when we put that question to the regulators they said, "We had a plan B to cope with that situation. If data adequacy had not been granted, we would just have gone back to that plan B". Does that surprise you, or not?

Stéphane Boujnah: I am not aware of that discussion.

Michael Dobson: Nor am I. I do not know what they meant by plan B.

Lord Hannay of Chiswick: I think Sam Woods was quite clear on it. At the time Brexit was looming, the possibility that there would be no deal and therefore that no data adequacy was very real. He suggested to us that as a regulator he had worked with others on a plan B for dealing with a situation where there were no data adequacy arrangements between the EU and the UK. That was why I put the question.

Michael Dobson: We do not believe it would impact us.

The Chair: Thank you both very much indeed. Michael, you promised to give us a little bit of commentary on the note in your accounts, and we would be very grateful if that could be sent to us.

I thank you on behalf of all my colleagues for the frank and clear way you have answered our questions. Stéphane, did you want to say something?

Stéphane Boujnah: As the meeting is coming to an end, I ask for one minute of your time to make a personal comment. This is the first time I have addressed the UK Government and Parliament at large, and I want to express a message of gratitude to you.

In 1987, when I was a student at Sciences Po and at the Paris law school, there was an exchange programme with the University of Kent at Canterbury, and an exchange programme with Georgetown University in Washington. My father was a factory worker and my mother was a schoolteacher. I was offered a scholarship by the British Council at that time. It paid for my studies at the University of Kent at Canterbury; it paid tuition fees and for accommodation in dormitories and a meal plan.

I did an LLM at the University of Kent at Canterbury. I did a mini pupillage at Middle Temple, and I did some research at the Institute of Advanced Legal Studies in London. I witnessed the general election in 1987 in Kent and saw British democracy in action. Later on, I spent six years of my working life with Freshfields. This time in the UK was a life-defining moment and it did not happen by chance; it happened by design because in the mid-1980s some people in Whitehall—in a budget department or wherever—and at the British Council were designing those types of programmes.

I thank you and the UK Government at large for this type of thing you are doing. I thank the taxpayers, the civil servants who design these types of programmes and the British Council. I ask you to consider, beyond what we have discussed today about regulation, the "people" side of Brexit, which is a fundamental transformation. I do not know whether that programme still exists, but it changed my life.

I am a grateful friend of Britain. I am a disappointed friend of Britain post Brexit and sometimes a concerned friend of Britain, but I am still a friend of Britain. In the divergence discussions, I hope that someone is taking care of protecting the interests of future generations and maintain the bonds with our continent. Thanks a lot to you, the UK taxpayers and those who were in charge of those sorts of things in the 1980s. I apologise for having distracted the agenda of your meeting with these personal comments, but for me they are important for the record.

Noble Lords: Hear, hear.

The Chair: You can hear the Committee applauding that. Thank you very much for that intervention, Stéphane. I will try to make sure that we send you the relevant reports we have written during the Brexit period. We are the successor Committee to the European Union Committee, so you can see that we have had these things very much in our minds.

I was thanking you and Michael for coming today and being so frank and clear. We now know why you speak such perfect English, Stéphane—

certainly much better than mine and perhaps that of one or two colleagues. Thank you very much. This has been a long session but a very valuable one.