



HOUSE OF LORDS

European Affairs Committee

Corrected oral evidence: UK-EU financial services

Tuesday 26 April 2022

4 pm

Watch the meeting

Members present: 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. 7

Heard in Public

Questions 93 - 115

Witnesses

[I](#): John Glen MP, Minister of State (Economic Secretary and City Minister), HM Treasury; Richard Knox, HM Treasury Director, Financial Services.

Examination of witnesses

John Glen MP and Richard Knox.

Q93 **The Chair:** Welcome to this hybrid House of Lords and the European Affairs Committee in our last evidence session in our inquiry into financial services and the future relationship between the EU and the UK. We are very pleased to have with us this afternoon John Glen MP, who is a Minister of State at the Treasury and responsible as the Economic Secretary and the Minister for the City. We also have with him Richard Knox, a director at the Treasury responsible for financial services. We are very grateful to them for sparing the time this afternoon.

This is a public evidence session so a transcript is being taken. We will send you the transcript and we would be grateful if you could advise us of any changes as it is, of course, a source document for us for the report that we are engaged in writing. We expect that report to come out in a month or just over. As we have quite a lot of territory to go over this afternoon, I appeal to everyone that questions and answers are kept relatively crisp. It does not mean that we want things left out, but it would be helpful to the process.

I will begin the questioning. I have three overall questions. The first I have labelled "high-level assessment". It has been over a year since the end of the transition period. Minister, what is your assessment of how the financial services sector has adapted to life outside the single market and to what extent has the City been able to retain its position as a world-leading financial centre?

John Glen: Thank you to the committee for the opportunity to be here this afternoon.

I will answer that first by saying that it is a very resilient sector. The UK financial services sector, which I am responsible for as a Minister, has not experienced the haemorrhaging of jobs that perhaps many anticipated when I came into office in January 2018. There have been modest movements of people to the continent of the EU. We have been energetically pursuing a range of initiatives. We have conducted around 30 consultations since the Chancellor's speech last summer, looking at what we can do to equip the City and financial services sector to take all the opportunities that exist for us.

I characterise the City and financial services as being in good shape. We have seen considerable growth and we have seen also a lot of willingness to work with the Government to embrace the agenda that the Chancellor has set out of being open, embracing technology, being competitive and embracing the opportunities of green finance and the green economy.

The Chair: That is a very helpful response. Perhaps I can dig down into one or two of those things.

My next question is about jobs. Ernst & Young has a rather interesting and useful job tracker. Its view is that around about 7,000 jobs have

been lost in the City since Brexit. Do you recognise that number? How does that number compare with what your own expectations were before Brexit? Secondly, we had Sir Jon Cunliffe here. Sir Jon is the deputy governor responsible for financial stability at the Bank of England. He told us that in his view the movement of jobs to the EU will be a process of years and is not yet over. Do you agree with that assertion?

John Glen: I met Sir Jon on other matters this morning and he told me how much he enjoyed his session before you.

There was a whole range of predictions on jobs from different consultancies. I broadly accept the 7,000 figure. I think that concurs with what the Governor of the Bank of England has said was the right number. We have to remember that there are 2.3 million jobs in financial services and the professional services sector, broadly. It is a massive part of our economy, around 10% of it. I do not think that we ever made predictions, but the dispassionate assessment of the ONS tells us that in the middle of 2016 there were 1.27 million jobs in financial services and insurance, and that number went up to 1.45 million in the middle of 2021. There has been some growth as well during that period, but I recognise broadly the figure that you said.

On Sir Jon's comments on what will happen in the future, I am a little more cautious about working out exactly what will happen. I certainly would not want to put any numbers to it. If I think about the resilience in opportunities that exist in our FinTech sector, some of the fundamental changes that are happening as we apply blockchain and the changes in the way that transactions are likely to be undertaken over the next generation, we could see significant changes in the numbers of people employed in the industry.

I do not think it is inevitable that we will see lots more jobs move. I also think it is very possible that we could see more growth in the sector as it changes its orientation and often can be seen to have fused in some ways with other sectors of the economy, the FinTech sector obviously being the most significant.

The Chair: Thank you for that. The third and final area I wanted to look at was the business of attracting and retaining businesses here in the City. First, could you give us a high-level view of what you are doing as a Government to attract and retain—those are two separate things—businesses into the financial services sector in the UK from outside?

Secondly, 7,000 jobs have gone; therefore a certain number of businesses have certainly gone. Do you have a handle on what the fiscal impact is of the jobs that have gone, which may well, of course, be balanced by other things coming in? It would be helpful to have some view on that.

John Glen: The tax receipts have been pretty resilient—around £30 billion, or £75 billion in the broader sector. You are right to state the importance of talent and how we manage that. Obviously, that was one

of the key issues for many people who supported Brexit. It was something that they wanted to focus on.

I can say a number of things about financial services. In May last year we improved the visa for global talent. In the spring of this year we have brought in the visa for high-potential individuals and the global business mobility visa. We will be looking to build on that this summer with announcements on the global talent network and how to bring in talent from key jurisdictions important to the growth of FinTech and the financial services sector. There is the scale-up offer as well.

We have listened very carefully to businesses about what they need and the ease of inter-office transfers. Lots of people in financial services businesses want to bring in talent from other parts of their network. I worked at Accenture for many years before I became a Member of Parliament and I was often working in teams with people from different jurisdictions. We need to make that easier, and we have measures in place for that. We are always open to new ideas. We have undertaken a number of initiatives, which we may be looking at in the course of this afternoon. We have independent reviews and take on board some of those challenges in making changes that benefit the industry.

Q94 Lord Hannay of Chiswick: Minister, could you give us a little more precision about the fiscal impact that the Chair asked you about? After all, we are 16 months into the post-Brexit period. Presumably, there are a number of figures available to the Treasury about the way this has developed and its comparison with previous periods. Could you say something a bit more precise, giving a few figures for example?

John Glen: I can read out the PAYE, the corporation tax, the bank levy, the surcharge figures; I have them here. I am saying that broadly there has been a consistency to it. There will be some variability. Over the last two years we have had three lockdowns and significant impact on the economy, so it is very difficult to deduce significant changes from, say, one corporation tax figure. What I see broadly is that we have changed the surcharge to take account of concerns around competitiveness. We have put the allowance up to £100 million to try to encourage the smaller firms. Building meaningful competition in banking, for example, is very challenging. We continue to have a dialogue. Virtually every day I speak to banks' chief executives and various organisations that you have spoken to during the course of this inquiry to ensure that we remain competitive.

Lord Hannay of Chiswick: Can you let us have the figures?

John Glen: I have them here. You can have them.

Lord Hannay of Chiswick: No, I mean if you could send them in writing to us.

John Glen: Of course. I have the HMRC figures for PAYE and corporate tax receipts from the banking sector that was published in 2020.

The Chair: I think it would be very helpful as a product from this if some of those figures could be sent through to us.

John Glen: Of course. I shall write to you and highlight the relevant figures and, alongside it, what we have done over the last few years to try to ensure that we remain competitive, which is obviously critical in this area.

The Chair: That is very helpful. We will move to Lord Jay.

Q95 **Lord Jay of Ewelme:** I have a question about the Whitehall architecture, Mr Glen. Could you explain how your responsibilities and those of the Treasury relate to those of the Foreign Office, the Department for International Trade and the Cabinet Office?

John Glen: I am responsible for financial services and financial services policy. It is a pretty complex answer to try to fully describe the relationship between FCDO and DIT.

Lord Jay of Ewelme: I can well understand.

John Glen: Obviously, we work closely together. Tomorrow I go to Berlin and I shall be working with Foreign Office colleagues. They have been incorporated into the briefing material and will help to line that up. I am part of the process when DIT is conducting trade deals, including in financial services. If not directly in the room, I am consulted on the provisions within it.

Lord Jay of Ewelme: Does the Cabinet Office have any kind of overarching role in this or would you say that the Treasury was very much in control and other departments follow?

John Glen: Occasionally the Cabinet Office gets into areas of my broader responsibilities, but when it comes to financial services policy and with respect to the EU, no, I cannot recollect a time when the Cabinet Office has—

Lord Jay of Ewelme: Is there no need for any real co-ordination among the different government departments involved?

John Glen: I am always open to suggestions but I do not think so. Essentially, I take the lead and we reach out to the Foreign Office and DIT where appropriate, and they reach out to us, to me and to my office, where appropriate.

Q96 **Baroness Scott of Needham Market:** I want to go back to the question of the jobs relocating. The evidence we have heard suggests that rather than go to one or two centres, those jobs have been fragmented across a number. Assuming you agree with that, what is your assessment of the risks and benefits to the UK in this fragmentation taking place? What is your current assessment of the emergence of any financial centres that might be serious competition for the City?

John Glen: First, I am never complacent about the future for the UK and London. We are a very strong international hub for finance. We provide deep pools of liquid capital for the continent of Europe and we are the largest hub for trading and clearing of equity markets, private equity venture capital.

You are absolutely right. The jobs that have moved—in very modest numbers, often as a contingency arrangement by the firms in question—have moved to different places. The French typically have more of a strength in banking and would perhaps like to have more of an asset management industry. The asset management industry and fund management industry in Dublin and Luxembourg is important. I could go through all the countries and their different strengths, but the key point is that none has the holistic set of qualities, the supporting infrastructure and what I would describe as the hub qualities that London has. There is not a single alternative that I would say is Frankfurt or Milan or Madrid. Madrid and the Spanish are strong in retail banking. I also recognise that we probably, across the remaining countries of the EU and the UK, should be looking at the competition from the wider international sphere, so New York and Singapore. I see those as being as much our competition as our friends in the continent of Europe.

The Chair: You did not mention Tokyo there.

John Glen: It was the central bank governor of Japan who first spelled out, in much better detail than I have just done, the qualities of all the individual European capitals and centres of finance and made the point that I have just made that London is the hub. Yes, Tokyo has some strengths as well, of course, in banking and financial services. Richard and I, just a few weeks ago, met the deputy ambassador to ensure that we were maintaining that relationship.

Q97 **Baroness Couttie:** Good afternoon. The UK currently holds only one temporary equivalence determination from the EU. There seems to be very limited progress on this front. May I ask why that is and whether securing equivalence decisions from the EU remains part of the Government's strategy?

John Glen: Thank you for the question. When we went through the process of seeking equivalence from the EU, painstakingly, my officials, led by Richard and others, filled out 2,500 pages. We got all those in on time, I think in June 2020, and we proactively made equivalence decisions ourselves towards the EU. We did that because we believe in openness and we believe that London as a financial centre needs to be open to other jurisdictions. Of course, we had been part of the EU. When I have bilateral conversations in many European countries, as I have done over the last six months, they are very positive about London. We wanted to state where we were going. We also set out criteria on how we would deem the countries equivalent.

I cannot account for what the EU has decided to do with respect to us. That is a matter for it. It is obviously sovereign to make those decisions

itself. I met with Commissioner McGuinness a couple of months ago and we had a very positive conversation. It is a matter for her and her colleagues to determine what to do with equivalence. My job, where I can, is to do whatever I can for the interests of the UK financial services sector, and that is what I am getting on with doing.

Baroness Couttie: I would quite like you to expand on exactly what it is you are doing. It sounds as if equivalence seems to have stalled with the EU. You have had your meeting, as you have just referred to, but it does not sound like the Government are putting an enormous amount of push behind it, really feeling that the EU will probably not move in that direction. What are you doing to pursue support for financial services trade, both with the EU and globally?

John Glen: We have done everything that the EU has asked of us in co-operating and giving it the materials it needs to deem us equivalent or not. What I cannot then do is force it to make a decision on that. We have gained a decision on EMIR 25 with respect to clearing. We have been given temporary permission until June 2025. That is very important. The CCPs in London are globally very significant. On Article 47, no decision has been made on any jurisdictions when it comes to investment firms, for example.

I cannot account for the EU's decisions. What I can do is tell you what we are doing on our relationships. There is no single model. If I think about our relationship with the US and the Financial Regulatory Working Group, which has been going for the last four years, I was in Washington a few weeks ago looking at what we would focus on in the coming year in that relationship. If I think about the economic and financial dialogue that we have with a whole range of countries, they are all about executing the optimal outcome. However, the EU's determination of the UK's equivalence is a matter for it.

Baroness Couttie: Do you think that the lack of an equivalence determination reduces the value of maintaining regulatory alignment with the EU?

John Glen: I have been very clear. We have always sought to regulate appropriately for the UK's best interests. I have never sought to describe the UK's financial services policy as one that would be based on deregulation, a race to the bottom or somehow trying to secure competitive advantage by removing regulations.

However, there are a number of areas where things that we have inherited that we onshored through all those statutory instruments that I did in the run-up to 2019 and we put into UK law were not necessarily good for the future. Indeed, the EU itself is looking at the future. It is a not a static moment of equivalence. We are both now evolving as we would. The post in Brussels keeps a very close eye on what is coming out of the EU and we also think carefully about what decisions we make for the UK in light of the desire to be globally competitive. I want us to do

the right thing for the UK, but I also want us to have high standards that make us competitive in all jurisdictions.

Baroness Couttie: Do you think that is compatible with potentially getting equivalence with the EU or is having the right regulatory environment for UK financial services of greater importance than perhaps the equivalence determinations that the EU may have if, as you say, both sides have not diverged?

John Glen: Our friends in the EU are very important trading partners, but we also have trading relationships in other jurisdictions and market opportunities in other parts of the world. My job is to look at the opportunities as a whole, but I am not consciously trying to deregulate, annoy or excite. I am just trying to do the right thing for London and the UK financial services sector.

Q98 **Lord Hannay of Chiswick:** Thank you for your answers there. I have two additional points. Presumably, given that you put a lot of effort into preparing all the material for the granting of equivalence by the Commission—and I do not want to go any further into your answers about that because I am sure you are right in saying you cannot speculate about that—you would like to have more equivalences if they were available. That is the first question.

The second question is about the disparity—the imbalance—between British financial service firms that have only one equivalence and the Americans who have 21, I think, or something like that, and Singapore, Switzerland and China. That imbalance seems, on the face of it, very evident, and I accept that for some sectors it may matter more than others, but if it continues for the foreseeable future does it not put us at a competitive disadvantage to some of the other non-EU centres that have more equivalence granted?

John Glen: I go back to the answer I gave with respect to the whole issue of how the EU thinks about third countries, even those that have been intimately related to it and, indeed, drivers of many of the financial services directives and regulations, which we were. If it deems us not to be equivalent, that is a matter for it. What it does with other third countries is also a matter for it.

Time moves on. Increasingly, for both the EU and the UK, the further we get away from the TCA, the initial agreement and the initial decisions or lack of decisions on equivalence, the more we will naturally both develop our own regulatory regimes, on things such as green finance, the way we think about cryptocurrencies and blockchain, the way we think about stablecoins, a whole range of Solvency II reform, and what we think about wholesale market reform. All these matters will be things that we will do in parallel. The question of equivalence will always be there and we will always be open to discussing whatever the EU wants to discuss, but I am not sitting waiting for that decision. I am making changes that seem appropriate after long consultations and thinking about it and

working with industry to do what is right for the UK financial services sector.

Lord Hannay of Chiswick: Okay, and about the imbalance between us and other financial centres outside the European Union?

John Glen: As I said, the question of how the EU sees other third countries, like America—

Lord Hannay of Chiswick: I am sorry, I am not asking why it comes about. I am asking whether it leaves our financial services companies at a disadvantage to financial services companies established in, let us say, New York, Singapore or Shanghai, which have a greater array of equivalences granted by the European Union.

John Glen: Not necessarily. In fact, probably not, because we, as an independent country, have the right to form our own relationships with those countries. I talked about the US Financial Regulatory Working Group. We have deep and ongoing dialogue with Singapore. We have had economic and financial dialogues in my time with China, India and Brazil, and we have other opportunities to develop relationships in ways that the EU perhaps does not. We can customise those relationships in a way that does not exist with the EU. Things have moved on quite a lot over the last couple of years and we have tried to execute changes that make sense for us.

Q99 **Lord Wood of Anfield:** Having been asked about equivalences that we do not have, I want to ask you about the one that we do have, which is the central counterparty, CCP, which has recently been extended until 2025. Is it the policy of our Government that we want this extended again? The EU is making lots of noises about how it wants to reduce its reliance on UK CCPs. Do you expect the extension to happen? I guess more fundamentally, is it our policy as a country that we want another extension after that?

John Glen: All I know and all I want to be clear about is that UK London CCPs are efficient, globally accessible and effective in what they do, and I want that to continue. I want to create a legislative environment and an overall operating environment that means that they are globally effective. What the EU decides to do in any notion of open or closed strategic autonomy and setting up its own infrastructure will be a matter for it. I obviously am familiar with that notion and its desire philosophically to contain all its infrastructure within its own borders.

If I speak to market actors, banks and companies that use the infrastructure of financial services markets, their primary driver is efficiency and avoiding duplication and cost. Again, I cannot account for where it will get to towards that June 2025 deadline, but all I can do is serve the global marketplace as effectively as I can. All I would observe is that it is quite challenging, as you see in some of the evidence you have received, to build up that infrastructure, but that again is a matter for it. Ana Botín from Santander made very clear quite recently the challenges

that exist from that, and she represents the European Capital Markets Union. That will be a matter for it, but all I can do is make sure that we are as effective as possible. How that plays out is something that we will have to keep an eye on.

Lord Wood of Anfield: At this stage, we do not have a position on whether we want equivalence to continue beyond 2025.

John Glen: We want to ensure that our operating environment for financial services and the infrastructure supporting it is as competitive as possible. That is all I can do. I do not want to be in a position where we are dependent on any decision. I want to make the best market environment for the UK.

Lord Wood of Anfield: I have one quick follow-up. You said in your letter to us that there had been some evidence of limited movement from the UK to EU-based clearing houses. Is there still evidence? Is it growing? Do you expect this trend to continue or was it a short-term rather than a longer-term trend?

John Glen: No, I do not think that I can be too specific, but there was a small amount of movement. It is certainly not something significant for us to be overly concerned about, and I do not think that it is part of a trend.

Q100 **Lord Lamont of Lerwick:** I have one point. You said that it was quite challenging for the EU to build up its own CCPs. Obviously, as you said, that is a matter for it, not you. Why is it so challenging? Is it a question of the liquidity of London? Is it a question of the skills in London? Why is it so difficult for it? It plainly initially thought it could do this and then had to reconsider and take a longer-term view.

John Glen: It is probably a combination of things and you have mentioned some of them. It is setting up an infrastructure and, of course, it is the premium on switching. To switch and ask people to move from one jurisdiction to another involves additional costs as well, and I think that will be another factor that it will have to factor in. Again, that is a matter for it. What I want to do, as I said to the commissioner, is to make sure and continue to make sure that the UK has high regulatory standards that stand scrutiny, that do not contain risks for anyone and that allow businesses, banks and institutions to use them with confidence at the optimal price.

Q101 **Lord Faulkner of Worcester:** Good afternoon, Minister. Thanks for coming. I want to ask you about how we can liberalise the trade in financial services and look particularly at the role that free trade agreements, mutual recognition agreements and regulator-to-regulator dialogue can play in that. Do you have a general comment about that? Then I will ask one or two specifics.

John Glen: Yes, I am often asked about what is in a free trade agreement for financial services, and there may be some matters around mutual recognition of qualifications or some understanding on data and

use of data in insurance or other industries. The ongoing dialogue between regulators in the UK—the FCA, the Financial Conduct Authority, the PRA, the Prudential Regulatory Authority, and sometimes the Bank of England—with other jurisdictions is really important and an ongoing part of the framework and the international bodies that operate. Just this Saturday I was involved in an exercise with the EU and the US looking at what happens when banks fail and how you choreograph interventions. That co-operation carries on all the time and is led by regulators.

To the first part of your question, as I say, there is a range of relationships and types of relationship based on the different jurisdictions and what sort of dynamic they have an appetite for. For example, with Switzerland, we are in conversation and progressing a conversation on a mutual recognition agreement where there is, frankly, a mutual appetite for similar standards of openness and giving each other access in different domains. We hope that will be a useful template for financial services with other jurisdictions.

I mentioned these economic and financial dialogues and obviously each one is customised to the particular concerns, interests and opportunities that exist on both sides. I also spend time bilaterally meeting my counterparts' regulators in other jurisdictions. Tomorrow, as I mentioned, I will be in Berlin and I will meet my counterpart's regulators and industry bodies to understand their thinking and so on. I do that regularly. I think that it is very important and it is a key part of how we maintain our competitiveness on issues such as the regulation of cryptocurrency. You will be aware that the US President has put out a presidential directive that will necessitate 13 regulators to come forward with reports. I now understand the dynamics of that. It is quite complicated but I am also trying to understand how we relate to that and what we do in light of that. Engagement with my counterparts at a political level, but closely aligned to regulators, is very much how we move forward in financial services.

Lord Faulkner of Worcester: You said that the mutual recognition agreement with Switzerland, if it comes off, could be a template for similar agreements.

John Glen: I hope so.

Lord Faulkner of Worcester: What countries do you think might be interested in picking that up?

John Glen: That remains to be seen. We have good relationships with lots of countries. I do not think I would want to speculate here. We have dialogues all the time with individual countries and those relationships ebb and flow and move into different territories. Sometimes we have aspirations with them and at certain points it is—I do not want to get involved in the tactics of that.

Lord Faulkner of Worcester: Okay, but what do you see as the respective strengths and weaknesses of free trade agreements as

opposed to mutual recognition agreements?

John Glen: For the UK and for financial services, the ongoing regulatory dialogue gives us the flexibility to adapt to changes that exist. Obviously, free trade agreements are quite useful with respect to goods and codifying tariff arrangements and so on. In many areas—for services in specific subsectors of the services sector—the regulatory dialogue is very important. There are also things in financial services such as the implementation of global imperatives—for example, Basel 3.1—that will be done through regulators. Therefore, the incorporation of this into free trade agreements would not be appropriate because there is an ongoing dynamic to different interpretations of how to do what are globally responsible and agreed actions.

Q102 **Lord Hannay of Chiswick:** Could we have a look at the memorandum of understanding issue? The TCA, of course, was accompanied by a declaration that committed the UK and the EU to agreeing to establish a structured regulatory co-operation on financial services. We understand that a memorandum of understanding has been negotiated, was agreed in March 2021 but is still not functioning. It is not in operation. Perhaps you could say what you think the reasons for that are. Could you also say to what extent the Government view the implementation of that MOU as being likely to be beneficial to UK financial services and regulatory co-operation with the EU going forward and what alternative channels exist if this stasis that we are in at the moment is there? Do you have a regular periodicity of your meetings with the commissioner at which you could raise issues that would otherwise have come up under the memorandum of understanding, or is it purely episodic when you happen to see her? Are there any issues at the moment in EU draft legislation in the financial services field that we are concerned about?

I saw an article in the *Financial Times* a few days ago saying that banks were very worried about some of the Commission's latest proposals. Are we taking that up with them and, if so, what is the method of doing so? Presumably, if the memorandum of understanding is in operation, it would be an item on the agenda of a discussion of that.

John Glen: The MoU would have established and is there to establish a joint UK-EU financial regulatory forum. You are right to say it was ready to go in March 2021. The EU, for whatever reason, has not been in a position so far to sign up to that. We are in a position to sign up to that and, again, it is similar to the issues on equivalence. We have co-operated fully. We negotiated in good faith. We are ready to sign up to that, and it is a matter for it as to what it has determined to do.

On the ongoing concerns of industry, there will always be, as you know very well, the iterative step of Commission proposals working through the Council and Parliament and the conversations that mean that there is quite a journey to go on with some of these. I think concerns exist around what the obligations of international banks will be in what presence they have to have within the EU and what will happen on that.

We can see that as plainly as they can. They often talk to us in the bilateral conversations I have in meeting chief executives all the time.

I have been to Madrid and to Luxembourg. I go to countries all the time. I went to Brussels. We have the opportunity for dialogue with various people around financial services. I try to keep very acquainted with the concerns that exist. Individual countries speak to us and we have very strong relationships across the continent.

As for my conversations with the Commission and the commissioner, I had a conversation with her a couple of months ago and I am sure we will speak again. We do not have a fixed moment where we agree to speak, but it was a very professional and cordial conversation about issues of mutual interest.

Lord Hannay of Chiswick: Yes, but would you not agree—surely—that if you wait until this very complex legislative process that goes on within the European Union—the Parliament, the Council, the Commission and so on—is set in concrete and comes out at the end, the chances of changing it are very slight? If you get involved indirectly, because we cannot be involved directly, in the process while it is still at a formative stage, you have a better chance of influencing it. My question is: are there any issues, any files, at the moment that you are concerned about that the Commission and the Council are dealing with that we would like to see dealt with a bit differently and what are we doing about it?

John Glen: Lord Hannay, we are not in the EU any more and I am the UK Financial Services Minister.

Lord Hannay of Chiswick: I recognised that in my question.

John Glen: My responsibility is for the UK financial services sector and making the changes through the 30 consultations I have undertaken since last July to do the right thing on our wholesale markets, on our FinTech Kalifa review, on Jonathan Hill's excellent listings review and on a whole range of other matters, including Solvency II, for which we have just issued a consultation. Of course, I look in a very interested way at the evolving prospectus of interventions and directives that are happening in the EU, as I do in Singapore, New York and jurisdictions across the globe. My job is to position the UK financial services sector in the best possible way, taking account of all that.

Q103 **Lord Liddle:** We have been told by various witnesses that it is the Government's aim, under the future regulatory framework review, to shift the way that financial services are regulated from primary legislation to secondary legislation and to action by the regulators. This is a big House of Lords question. We have Lord Hodgson of Astley Abbots and Lord Blencathra saying that far too much of legislation generally is done on frameworks that then are left to delegated legislation for implementation. There is a general concern there and I am interested in how you react to that.

In the particular field of financial services, how do you guarantee the

public interest if you have delegated decision-making in this way against the possibility—I am sure our regulators are excellent people and all that—of the well-known phenomenon called regulatory capture? How do you guarantee the public interest in those circumstances if the regulators are the people actually taking the decisions?

John Glen: That is a great question and there are lots of ways I can answer it. I will start by saying what we have done so far. We onshored the EU legislation that we had been part of. We put in temporary permission regimes and temporary recognition regimes. We onshored 270 of the EU's equivalence decisions for overseas jurisdictions. What we have to do is set, through the future regulatory framework, the right architecture for decision-making. You are right to say that fundamentally what we will do—sorry, if I am granted legislation in the next Session—is to give the PRA and the FCA powers to make those often technical criteria and decisions but set within primary legislation what I define as guardrails that say there needs to be a secondary competitiveness objective, which is one thing that we want to do.

I do not think that when the country decided to leave the institutional framework of the EU, people wanted Parliament not to be ultimately accountable. What I have to try to do through the passage of that legislation is to get the balance between the right of Parliament to call the regulators to account but thinking of the credibility of regulators as independent, very professional and well-respected entities to carry on.

On your question about the element around public engagement with that, there is such a range of things that come across my desk, from ensuring that we have access to cash to looking at consumer harm and areas around evolving consumer products such as buy now, pay later and short-term credit. Those things typically attract more public interest through our Members of Parliament, but then on other more complicated matters, such as the amount of transparency in capital markets, there will be a much more niche audience that is probably a few miles down the road in the City. I have to make sure that the regulators are held accountable but also given the freedom to move nimbly to deal quickly with some of the changes that emerge. I hope that that answers your question.

Lord Liddle: Fine. We look forward to the debate on the legislation. There is a second point. You talked about a secondary competitiveness objective. Are the Government are clear that it is a secondary objective? When Sam Woods came along to talk to us, he was adamant that it should not be a primary objective of regulation. Do the Government share that view?

John Glen: Yes, they do. The reality is that we need strong regulation for secure, stable markets that are internationally well recognised, but they cannot be oblivious to the wider competitive landscape. Of course, the regulators have remit letters. They have regard to obligations and a range of other interventions. I recognise that there are some—typically they tend to be from the insurance industry—who would rather that we

had a primary objective, but the Government's view is that secondary is desirable for both the FCA and the PRA.

The Chair: We have a couple of colleagues who wish to come in on this point, first Lord Trenchard and then Lord Tugendhat.

Q104 **Viscount Trenchard:** Minister, you just said very clearly that the Government want to keep the competitive objectives secondary. However, Lord Hill, who commissioned a report for you, and the chairman of Schrodgers have both said definitely, clearly, that they think that competitiveness objectives for the regulators should rank equally with the other main objectives. There is definitely a difference of opinion between the Government and, for example, Lord Hill and some elements of the private sector.

John Glen: Yes, there will always be. Jonathan Hill is a constituent and a good friend of mine. I speak to him regularly, he is the lead NED in the Treasury, and I shall talk it through with him again next time I see him.

Viscount Trenchard: I would like to be a fly on the wall.

John Glen: It is usually very amicable because Jonathan Hill is a very professional and fair-minded individual.

Q105 **Lord Tugendhat:** This is just a very small question. Where we are dealing with regulators making their own rules, to what extent are you worried about the intervention of judicial review?

John Glen: I want the regulators to function efficiently and effectively with the consent of those they regulate in a way that means that we are seen in the UK to do the right thing but enables innovation and growth in this industry. I think that it is mistaken to believe that if every regulatory intervention is codified in primary legislation somehow we will then have a dispassionate assessment of truth and nobody will ever go to the law. What we are doing with this framework is echoing the principles of FSMA 2000 and giving regulators that freedom and responsibility. I am aware of those who say that we should do more and put more in primary legislation. I do not think that is the right thing to do, but the primary legislation should set the parameters by which they operate.

Lord Tugendhat: I am not in any sense hostile to what you are suggesting. I was a very long time ago now, 30 years ago, a regulator myself in a different field. I was very conscious of judicial review and the possibility of our decisions being taken to judicial review. In judicial review, the judges are much more activist now than they were 30 years ago, and I wonder whether what you are saying to us will be sustainable in the event of judicial review.

John Glen: I expect so. The point is that we have a choice of how to do this, and I hope that through the passage of the legislation I will set out in due course the opportunity to scrutinise the logic of the Government and the other ways of doing it. That is part of our democratic process and I look forward to that conversation.

Lord Tugendhat: Anyway, perhaps I can leave that with you.

John Glen: Of course.

Q106 **The Chair:** I will come back with a private question now. Again, I am on the competitiveness objective. I do not quite understand why it must be a one-size-fits-all answer. I can understand that for banking, which has blown up in 1929, 1974 and 2008, you might have a view that it could be a secondary objective, but for an intermediary business I wonder whether it could be a primary objective. I did not see why it had to be one size fits all. Perhaps you could explain your view.

John Glen: My instinct on that is that the regulator's reputation for being independent is quite important. I do not think it would be a situation whereby if I receive a delegation of 20 bankers who make the case on competitiveness, somehow I then have to ring up the regulator or they go to the regulator and that then drives the decision, because there will be issues around systemic stability for the economy as a whole. You asked the question about new categories or subcategories of the financial services sector. I would also observe that business models change. Some start off being a payments firm and end up wanting to become a bank.

The Chair: Then they would move into a different regulatory environment.

John Glen: Yes, but we also need to step back and say, "What are we trying to do here?" The reputation of our regulators globally is very high. People want to come to this country to get authorisation from the FCA and the PRA and they do that because they know they will have to reach a high bar or standard, but equally those regulators also have to be aware of what is going on in other jurisdictions because they cannot place a disproportionate burden. It will be seen in the operation of this, but it will also be seen in the light of the remit letters and the other obligations that they have already.

Significant dangers emerge from thinking that primary competitiveness has no adverse consequences. I think it would and it would not be positive for the industry as a whole. Trying to define and legislate for different subsectors of financial services, given how fluid and overlapping some of them are, would also be quite problematic.

The Chair: Thank you very much. I will be keen to read the transcript of that, but we will move to Lord Lamont.

Q107 **Lord Lamont of Lerwick:** The Government are currently conducting a number of reviews into regulations that are retained EU law. As you said earlier, law that is made for 27 countries is not necessarily ideal for one. What areas have you identified as targets for reform or divergence?

John Glen: I would not necessarily characterise it as divergence. I would say that it is about doing the right thing in reform. I mentioned these 30 consultations. I have committed to make a number of changes through the wholesale markets review. The listings review that I mentioned has

also made a number of changes to the way that IPOs can happen. Reforms to Solvency II are massively important. We are committed to delivering those changes to the risk margin and the matching adjustment. The Treasury started the consultation but we have been working with the PRA on that.

There is a whole range of areas. I made a speech on 4 April on the whole environment for cryptocurrency, crypto assets and blockchain and how we as a Government work with regulators and industry to define the pathways forward on that, looking at how English law evolves to deal with DLT and blockchain, how we deal with the consumer risks, and how we regulate for stablecoin. Those are areas. I am aware of MiCA and what the EU is doing in these areas. I am also aware of what the US is doing. We think carefully about what we are doing in the light of competitiveness and what is global best practice, frankly, in the emerging area in that particular domain.

I do not have a specific list, but I have had a list of areas of focus that we have then engaged with industry, listened carefully to things that they wanted to do and then done as quickly as we can. I have asked Mark Austin to look at the secondary capital-raising review, which builds on work that Jonathan Hill did. Sometimes some work leads to new work, but I do not have one specific tick list that I am working through. We seem to be taking things forward on lots of fronts and it is quite busy.

Lord Lamont of Lerwick: You mentioned the listing review. Are you happy with the progress being made on that? What about the provisions relating to SPACs? Is that something that needs rethinking?

John Glen: I think we have adopted all those changes that Jonathan Hill asked us to do to make it easier to list in the premium segment for dual class listing and the different amount of capital that one needs to put in at an IPO. There are much wider issues around the ecosystem of IPOs that are also relevant. We are very competitive with IPOs. It is just against the US that we have the challenges. Part of that is about the overall operating environment of the City and its capacity to make long-term investments. We have done some work with long-term asset funds with the Bank of England and the FCA to set up a new structure for long-term asset funds. I hope that the investment management community will bring forward products in that area pretty soon.

Q108 **Lord Lamont of Lerwick:** A lot of our witnesses have talked about divergence while, as I am sure you would agree, urging against divergence for divergence's sake. It is really a bit of a non-issue, is it not, the way people talk about divergence for the sake of divergence? That would never be the Government's position, would it?

John Glen: I have never wanted to diverge for the sake of doing something differently. What I know is that a lot of people came to me, Lord Lamont, and said MiFID was very unpopular, "Will you not get rid of MiFID?" I would say that a lot of people did not like MiFID or how it ended up, but a lot of those people then had to implement it. There are

enduring elements that did not prove worth while in transparency and what you do in equities markets versus derivative markets, for example, and the amount of information you exchange, so we have made some changes there. We have done that practically, based on something that dispassionately does not work.

We probably said in some of these—not necessarily that one—that it did not work but we were outbid, so we signed up to that directive as we were bound to, but now we can do things slightly differently. We are not doing it to gain an advantage in a reckless way. We are doing it because it is a superfluous intervention that does not add anything to the way the market functions.

Q109 Lord Tugendhat: On monitoring what is happening in financial services on the other side of the channel, where does the primary responsibility lie here?

John Glen: That, again, is probably a combination. I am responsible for financial services policy and the regulators I work closely with. I meet the chief executives of the FCA and the PRA routinely and regularly. They have conversations as well. We have the Europe team in the Treasury that assists me when I go to Luxembourg, Madrid, Brussels, Berlin tomorrow and, I hope, other countries later this year. There is a combination of effort. I am responsible for the execution of financial services policy and I draw on the insights and relationships that exist across Her Majesty's Government.

Lord Tugendhat: I guess our delegation in Brussels has an important—

John Glen: Absolutely, thank you for reminding me of that. Yes, I met them when I visited there about six weeks ago.

Lord Tugendhat: Are there any particular areas at the moment where you feel that EU financial services regulation might either be converging or diverging from us?

John Glen: That is not a question I ask myself. I am aware of what they are doing, I am aware of where it is different and I am aware of where we had a common heritage and we have decided to do different things but for good reasons. I do not see it through that lens to be honest with you.

Q110 Lord Tugendhat: I have one specific question. The EU is currently considering reforms to its capital requirements directive, which placed restrictions on non-EU lenders that provide cross-border banking and capital market services. What is your assessment of the impact of these proposals on UK banks?

John Glen: I know that some are very concerned about it and they would have told you that in their evidence. That is something that is evolving and will be for the EU to take account of.

Lord Tugendhat: When you say some are concerned, do you mean some UK banks are more concerned than others?

John Glen: No, sorry, to be clear, what I mean is that international banks which will be subject to that change by the EU are concerned. I am not the Financial Services Minister for the EU so, with the greatest respect, it is the EU that needs to account for what it is doing. It is its stakeholders who will give you feedback on what it is doing.

Lord Tugendhat: I quite see that but obviously, in a general sense, HMG are concerned if the EU takes actions that have a prejudicial effect on our banks.

John Glen: What it does with CRD6 and Article 21(c) on the cross-border access is, of course, of interest but what I am saying is that we will expect the EU in due course to clarify where it is going. It seems to be moving in a positive direction and I welcome that. As I am not part of that process, it would be impertinent for me to comment on it.

Q111 **Lord Hannay of Chiswick:** I am sorry to come back to this because it was something you also answered a question on from me earlier. I am pretty startled by what you are saying. Do you not have evidence—I assume there is quite a lot of it—that the United States Administration, the Japanese, the Swiss and other third countries lobby the Commission, lobby the Parliament and lobby the Member States when there is a piece of draft legislation that they do not like and think could be better? We are not going to do so because we are not a member of the European Union and, therefore, we do not do that sort of thing.

John Glen: No, I am not saying that. What I am saying—

Lord Hannay of Chiswick: That is what you said to me in reply to an earlier question.

John Glen: The point is we have left the EU so our—

Lord Hannay of Chiswick: I know that.

John Glen: I just wonder whether you are quite reconciled to it.

Lord Hannay of Chiswick: I am sorry, that is an improper question. I have never, in any forum, suggested that we should be a member; we are not a member.

John Glen: I am just telling you—if you could perhaps let me answer your question. What I am saying is that we are not part of the decision-making process of evolving EU directives. I have indicated to your colleague that I am very clear about when it comes to, CRD6 and Article 21(c) of the evolving context for that regulation, I am aware, of course, of the decisions that will need to be made around Basel 3.1 and what the output floor means to French banks as it does differently from here. I am not privy to or instrumental in the implementation of those decisions because I am not part of it.

Now what I have to do is to make sure that, through my dialogue with the PRA and the FCA, I mediate the concerns of banks—international

banks and home-grown banks—to regulators and ensure that we have the best regulatory environment too.

I understand that the purpose of this inquiry is to look at our relationship with the EU; I am not sitting here oblivious to it. As I say, I have been to three European capitals in the last five months and I am going to another tomorrow. I plan to go again and, of course, part of that is bilateral engagement—half a dozen meetings with my opposite number in those jurisdictions. I think that is pretty thorough engagement and I will continue to engage with the commissioner as and when appropriate.

Q112 Viscount Trenchard: Minister, I am interested to understand a bit more about where the Government see the key opportunities for financial services following Brexit and how they aim to pursue them. Among the new sectors, where the Government presumably are seeking to support the growth of innovative and open markets, are sectors such as green finance, FinTech and cryptocurrency. One of those is green finance, where the EU is already developing its own plans by establishing a green taxonomy. From what you said earlier, I assume that it is no more likely that the UK's approach would align with the EU's approach on that than it is that it would align with the US approach or the Japanese approach, or whatever. Is there any plan to work closely with one jurisdiction more than others in that area and would that be the EU? How could we agree on nuclear, for example?

John Glen: I think that we have a lot of common heritage with the EU in this area. We worked very closely with it on the development of the EU taxonomy when we were part of the EU. We have drawn on its approach. Of course, we are never going to start—and why should we; we were part of the EU for a long time and we had a shared heritage so we need to look at where we were. We maintain the scope to define our own disclosure requirements and our technical screening criteria, and we will look at the recommendations of the EU's technical expert group as one of the key influences of that.

The interoperability with the EU and other jurisdictions is obviously very important. What I do not want to do is burden industry with a distinct, different and inappropriate additional set of regulations that differ for the sake of it. Our sustainability disclosure requirements were informed by the heritage that we came from. We will look at and work with what the EU has done with its sustainable finance disclosure regulation and the corporate sustainability reporting directive, and some of the issues that some countries and companies say exist with that, as I am sure some people will say there are problems with the some of the things that we are doing. Certainly we have common ground and we will build on that.

Viscount Trenchard: Would you say that there is an opportunity for the UK to seize regulatory first-mover advantage or would you say that we would prefer to champion international regulatory convergence and co-operation? Which of those two is closer to your policy and your strategy?

John Glen: To speak to green finance, in our announcement at COP 26, we championed the international sustainability standards board and I think many countries have seen the merit of a global approach. I cannot see the point in wilfully deviating but I also have to take account of the configuration of UK industry and our history on that. One needs to be pragmatic and adapt. If I think about things such as FinTech, where we have a rather unusual disposition of a strong regulator, access to finance and lots of creative minds in the technology field, how can we build that ecosystem and make it stronger?

For some areas I will look at what is going on internationally, but this is an area where we have to use sandboxes and to work with the FCA to develop a better iterative loop on regulatory approvals and authorisations. Again, international co-operation there is probably not such a big driver. On crypto, international co-operation will be important because, looking at the principles that the Chancellor was pretty instrumental in moving forward at either the G7 or the G20, it is important that we try to do things in an aligned way.

I take a pragmatic approach, trying to be informed on the basis of what is happening in every jurisdiction.

Viscount Trenchard: Is that approach exactly the same as it would have been if we had not left the single market or do you think that there will be some of these opportunities? When we talk about opportunities we still seem to be talking about only these three new sectors, not about growth or making London more attractive globally in the conventional sectors, which of course are still bigger. Are there any opportunities that we would not have been able to pursue if we were still in the single market?

John Glen: I do not think we would have done many of the reviews on crypto assets, listings, the wholesale market review, which I think is quite fundamental, or many of the other initiatives had we been in the single market. In our relationship with the US or Japan, which I know you take a close interest in, and other markets in India and China, the dynamics of those mechanisms would not have been the same. Obviously the MRA that I mentioned with Switzerland would also have been in a very different place. It would not have existed.

Q113 **Viscount Trenchard:** Lastly, and to ask a slightly different question, the financial services industry is nationwide. To what extent are the Government acting to support the growth of financial services centres outside London? Is that connected with the levelling-up agenda?

John Glen: I think it is often overlooked that two-thirds of jobs in financial services are outside London. With the fund management industry in particular there are hubs, there are centres of excellence in different parts of the United Kingdom—in Edinburgh, Leeds and Bristol and I visit them all. Some of the wider government policy with respect to freeports, the designation of essentially privileged areas across the regions of the United Kingdom, is designed to encourage that.

One of the recommendations of Ron Kalifa's review into FinTechs was to set up a centre for FinTech innovation and technology, which was again expressly designed to try to propagate the FinTech opportunities across the UK. Belfast has a strong core FinTech offer as well.

Q114 **Baroness Scott of Needham Market:** One area of concern that has been raised with us is data adequacy. There is obviously a certain unease that we have it until only 2025 and then it could be withdrawn. Could you describe the Government's assessment of the consequences for the financial services sector should data adequacy be lost? What are the contingency plans should that happen? For example, can you, after this time, dust down the no-deal contingency plans and so on?

John Glen: We do have those high standards. I recognise the fact it is not an enduring, permanent recognition but the arrangement that we have that allows for the ongoing free flow of personal data from the EEA to the UK and vice versa is a strong one. There will be, in the absence of adequacy, the need to rely on those alternative transfer mechanisms. As the Bank of England's Financial Policy Committee previously judged, large UK FS firms are well advanced in mitigating non-adequacy. I accept, as I do with the earlier question on CCPs, that these are not permanent. The question is: what would lead to that determination of non-adequacy, given the high standards that we wish to maintain? We obviously have that independent data policy and will take decisions in due course on an ongoing basis that will reflect what is right for the UK interest. Who else would we do it for?

What we are not trying to do is wilfully deviate or complicate our situation for the sake of it. We will continue to operate in that high-quality regime that promotes growth and innovation. We have to recognise that interoperability and the global opportunity that comes from having those high standards that are reliable and are seen to be reliable.

Q115 **Baroness Scott of Needham Market:** Finally, should the UK decide that it wishes to go in a different direction on reform of privacy rules and so on, which would put it on what the EU regard as the wrong side, how confident are you about your voice advocating for the financial services sector being heard? It is back to Lord Jay's question about the machinery of government.

John Glen: You have heard me this afternoon. I have set out what I do. I have good relationships with my colleagues and, obviously, I will continue to argue for what is required in all dimensions for financial services, be it data, talent, the right regulatory regime and strong ongoing relationships with our friends in the EU and other jurisdictions. We are a global hub for financial services and I want us to continue to be successful. That is my objective.

The Chair: That is very clear. Thank you very much for a series of frank answers in what has been nearly 80 minutes of very helpful work for us in our report. You did, I am afraid, promise to send us some figures in response to Lord Hannay's question.

John Glen: Yes, I shall write you a letter as soon as I can.

The Chair: Thank you very much. I am sorry we did not hear from Richard Knox but I want you to know that the committee holds you in very high regard and knows that you have done a tremendous amount for the country in this area. You are a terrific public servant. Thank you for coming along this afternoon. With that and, I know, the thanks of all my colleagues, I declare the evidence session over.