HOUSE OF LORDS

Select Committee on the European Union

Financial Affairs Sub-Committee

Corrected oral evidence: Financial services after Brexit

Wednesday 4 March 2020

10.05 am

Watch the meeting

Members present: Lord Sharkey (The Chair); Lord Desai; Lord Giddens; Baroness Liddell of Coatdyke; Baroness Neville-Rolfe; Lord Thomas of Cwmgiedd; Viscount Trenchard; Lord Turnbull; Lord Vaux of Harrowden.

Evidence Session No. 5 Heard in Public Questions 71 - 80

Witnesses

I: John Glen MP, Economic Secretary to the Treasury and City Minister, HM Treasury; James Fairburn, Deputy Director, Financial Stability EU Team, HM Treasury; Rohan Lee, Deputy Director, Financial Services Legislation and Strategy, HM Treasury.

Examination of witnesses

John Glen, James Fairburn and Rohan Lee.

Q71 **The Chair:** Welcome, Minister, Mr Fairburn and Mr Lee, to the EU Financial Affairs Sub-Committee's public evidence session on the future of financial services after Brexit. You have before you a declaration of Members' interests. The session is being broadcast on parliamentlive.tv. A full transcript is being taken and will be made available to you to make any corrections shortly after the session. The opening question is a context question. Can you give us some sense of how important the financial services industry is to the UK economy and how important EU markets are to UK financial services?

John Glen: Thank you very much, Lord Chairman, for the opportunity to be here this morning. It seems a long time since I was last before the Committee on 10 October 2018.

The financial services industry that I have had the privilege to be responsible for over the last 26 months is massively important to the UK economy. It contributes about £75 billion of taxes across the different elements. In Fintech, and asset management, we are the second biggest in the world. On insurance, we are the largest in Europe. On cross-border bank lending, we constitute around 15% of the total globally. It is a critical industry.

In the context since the election of a wider focus on the UK as a whole, thinking about the inequalities that exist across the regions of the UK, it is important to remember that, of the 1.1 million jobs in financial services, 688,000 of them are outside London and the south-east. We have significant hubs in Edinburgh, Birmingham, and Leeds, which with others constitute two-thirds of jobs outside the City of London and the south-east.

The Chair: When we heard evidence from Professor David Miles, he commented that, even if half of UK financial services exports to the EU were lost, it would only cost the Government around £3 billion to £5 billion of lost tax revenue every year. Is that a figure you recognise?

John Glen: My job is to maximise the growth opportunities, both with the EU and outside the EU, for which there is enormous potential. I am not in the business of trying to anticipate negative consequences of where we are, I am trying to maximise the opportunities. I am not in a position to speculate about where tax revenues would go; I want to maximise the growth opportunity.

The Chair: I ought to be fair to Professor Miles. He qualified that slightly by saying that it was a back-of-the-envelope calculation.

John Glen: Well then, I do not need to comment on that.

The Chair: I thought I would leave that until after your answer.

Q72 **Lord Giddens:** I have a three-part question. In which areas is EU equivalence particularly important for the UK's financial services industry?

Something that interests me personally is how important data adequacy is for UK financial services. You mentioned Fintech, but Fintech seems to me an inadequate term for a massive cluster of changes affecting the nature of money, the very substance of it, how we deal with it and so forth. That is front-line stuff, so how do we keep track of that?

Thirdly, are you confident that the EU will grant equivalence in the main areas that you think are crucial?

John Glen: I would like to start by addressing the equivalence issue. As I am sure you are aware, we are talking about 40 equivalence regimes across about 17 directives. It is a very complex matter. It is not a single decision point. Obviously, we have grown up within the EU having a massive influence over the way that some of the regulations have developed. Many of you will probably have participated in that process throughout your career.

We are entering a process of examining how we make those decisions both ways, through to June. It was in the political declaration that we intend to do that. The Chancellor has written to Mr Dombrovskis setting out the process as we anticipate it happening. That was published on Sunday. That is important because market players in all industries have been very familiar with a certain relationship and a certain way that we have been observing rules.

On data adequacy, your second point, there is no reason why we would not be deemed adequate. We have been, and we are, manifestly in this implementation period, completely aligned. Data flows are critically important for consumers and businesses. That covers start-ups, SMEs and large corporations. It is in everyone's interests, when we are dealing with the transfer of personal data covering cross-border contracts, that those decisions are made appropriately in due course.

I have no reason to see why we would not be deemed adequate. Obviously, we will not do things in exactly the same way, but we will expect, given where we have come from and how closely we have worked, to meet those conditions.

Lord Giddens: If I could interrupt you, do you think it is possible to keep a regulatory framework abreast of the enormous changes that are affecting finance in such a way that it could link through European institutions?

John Glen: We have to recognise that we are talking about standards that the EU, with us involved intimately in them, have grown from international standards. Sometimes one can be in danger of mischaracterising this as the EU having the sovereign gold standard on standards when in fact many of them derive from international standards. What we have to do is make sure that we observe those, and we have been leaders in the International Association of Insurance Supervisors, the Financial Stability Board, the Basel Committee, the Committee on Payments and Market Infrastructures. Those are bodies that drive standards and we have to make sure that we continue to have those in mind.

Lord Giddens: In some areas of Fintech the UK might be well ahead of the rest of Europe and therefore there could be difficult regulatory distancing.

John Glen: Absolutely. Fintech is a very exciting area. We have continued to be world leaders. We have seen increased investment through the period of uncertainty over the last three years. That is related to access to finance in the City, a world-class regulator and our tech skills. There are some challenges as we look forward in relation to maintaining access to talent and so on, but I am sure that its continued success will derive from the equivalence decisions.

Q73 **Baroness Liddell of Coatdyke:** You will be aware that in the financial community there is a degree of scepticism about equivalence and how it will function in the interests of the British financial services sector.

John Glen: Yes.

Baroness Liddell of Coatdyke: Ideally, how would you like to see it improved? Can you give us an idea of some of the specific changes that you would like to see?

John Glen: At this point in the process I am not going to set out a shopping list of changes. I engage one to one with leaders and others across the whole of financial services and I am aware of the different views that exist based on the distribution of activities between the wholesale and retail business areas.

What we will be looking to beyond June, as we look at the FTA, is a dialogue to manage the potential divergence that may exist. It is something that we recognise could be driven on both sides and there is no inevitability as to how we move forward. From the different views I have heard, I think that what people are concerned about is that there is a stable environment where people know, if changes occur driven by changes that we may wish to initiate or that could be initiated from the EU, they have a reasonable timeframe and clarity over what that structured dialogue would look like. What they want to avoid is uncertainty and cliff edges which obviously make business investment a more precarious and difficult thing to plan for.

Baroness Liddell of Coatdyke: On that uncertainty, are you thinking of the criticism we hear regularly about the politicisation of equivalence decisions?

John Glen: I said in my previous answer that we are equivalent in anyone’s eyes. It is clear that we have worked closely to achieve changes, to get directives and the alignment of our regulatory environment. What happens going forward will be a matter for the conversations which have started very recently and I hope that we will make progress. We hope that we can have a rational conversation at the technical and political level that will lead to the right outcome.

What I am saying is that beyond the initial discernment of equivalence that we have aimed for and which the political declaration declares we should seek and get by June, within the financial chapter of an FTA with the EU, we need to think about how we manage the future. That is about a structured dialogue. There is no secret plan to deviate or to have a bonfire of regulations and somehow race to the bottom, but we need to know how we stand with respect to changes on both sides. The EU would expect that too, I think.

The Chair: In the letter to Vice-President Dombrovskis, the Chancellor notes that the date of June has not been included in the EU's mandate. The Chancellor goes on to say that he sees no reason why we cannot deliver comprehensive and positive findings to the June timeline. Is the implication of that that we cannot start discussions about any mechanism for handling divergence until we have been through the process of equivalence assessment?

John Glen: The natural way of looking at it is that that determination would be the logical way to move forward first in order to establish where we are and what our baseline is, and then we would move on to how we structure our future relationship. In the choreography of that, we are obviously at the very early stages, but I imagine that those conversations will be happening in the coming weeks.

We have had lots of conversations in other jurisdictions over the last two or three years that we have not been able to actually go live on. We have come out of a situation of close and strong working relationships. I note that you have spoken to Governor Carney, Andrew Bailey and Sam Woods. I think you will have gained from their evidence that there is a close and intimate relationship at a technical level. As regards timings and the choreography in your specific question, I cannot give you a specific timetable here and now, but I can say that there is an obvious logic to this and I envisage that the same would be true on the other side.

Q74 **Lord Turnbull:** I would like to explore the interaction between UK-EU regulatory co-operation and the same regulatory co-operation with other jurisdictions. I am prompted by a piece in the *Times* yesterday. It said: "It also emerged yesterday that the US and Britain could strike an early deal on financial regulation separate from the wider free trade agreement that experts think will take years to complete. Discussions between the Treasury and its US counterpart on aligning City of London and Wall Street rules started 18 months ago and could form the basis of a standalone deal. A decision will be taken within weeks on whether to hold separate negotiations, potentially for a deal to be agreed before the US presidential elections in November".

Suppose we get to the situation where the starting point is that we are aligned, then we have a negotiation with the US or any other jurisdiction, some feature of which is different from the relationship we have with the EU. How do you resolve that? If we sign up to the US thing, are the EU going to say, "You have departed from the deal you have with us and so equivalence does not matter", or do you have to say to the US, "We can do a lot of the work and thinking, but we cannot sign up with you until we have settled that they are not going to raise objections in terms of UK-EU equivalence"? How do you square the three sides of that triangle? You cannot square a triangle, but anyway.

John Glen: Until we have resolved matters, we have the ability to have a dialogue with Japan and other significant financial services trading partners in the US, as you referred to. I go back to what I said earlier with respect to global standards and the fact that many of these relationships rely on an understanding of regulatory barriers and understandings between jurisdictions. The markets are very interconnected and we start from quite a close level of access in many of those markets, as with the EU. I think that you are trying to draw out whether there is a choreography conflict between the finalisation of the EU relationship and our freedom elsewhere.

We have a number of mechanisms, which I think you will ask me about later, to do with global financial partnerships and the economic and financial dialogue that we have with other countries. They allow us a lot of latitude to develop and lay the foundations for outcomes that would happen later, when we have concluded the equivalence process and when we have got to the free trade agreement with the EU.

The point of Brexit, as far as I can grasp it, is that we are free to make those judgments, but I refer to what I said just now: what mechanism do we have through structured dialogue with the EU going forward to verify any divergence, if that is the route we or the EU go down? What you are asking about is how that would affect our relationships with other jurisdictions and other trading partners in financial services. It is one thing to look at where divergence happens in standards, what the implications would be, how we would structure a dialogue to resolve that, and whether it would have implications for being deemed equivalent both ways with the EU. Our freedom to have dialogue with other jurisdictions exists. We cannot, as a country outside the institutional framework of the EU, not have that freedom to operate. That is what the decision derives from.

Lord Turnbull: What you have is the freedom to conduct negotiations, but what I am questioning is whether you have the freedom to clinch the deal if at the same time you are trying to stay aligned with the EU, or if do not have agreement from the EU, the departure or the change you want to make is not material.

John Glen: What you are talking about is different free trade agreements with different countries, one with a block of countries that is the EU and one with other jurisdictions, in which there are different emphases and different issues on both sides. They are different, and any attempt to bring them together is part of conversations that we would have bilaterally. We are in quite speculative territory about the way one would influence the other. What I am trying to indicate to you is that we have mature and deep dialogue with multiple jurisdictions that are key to our future development as a centre for financial services, and we expect to execute those things at the right time.

Lord Turnbull: Am I right in thinking that what you hope will happen is that there is a bigger global agreement that we all agree to—as, for example, in Basel—and the EU comes to an understanding on it, as does the US and so do we? You then maintain the alignment through that route and our ability to engage in those discussions is very strong, whereas it will get weaker in Europe. How do you get to the point of having a dialogue that says, "We want to make a change to our regulatory structure, partly because it helps us with our negotiations elsewhere"? How do you get the EU to engage with and settle that?

John Glen: In the second half of this year, we are going to be moving forward, hopefully, to conclude the free trade agreement with a financial chapter with the EU. Sometimes we have a different instinct about how best to implement global standards. Instinctively, our approach is to favour an outcome-based approach. That governs the way we conduct ourselves in all jurisdictions. Equally, we have to be flexible enough to recognise that there are changes we may be prepared to make in order to accommodate advantages that can be gained by improved access to different markets. I see this as a set of parallel conversations and how they are resolved will be a matter for negotiation as things develop during the course of the year.

Lord Desai: You make it look very friendly: "We have agreed to everything before and we are going to agree again". Think of this from the EU point of view, which is that it would like to develop Frankfurt and Paris as financial centres. Have you thought through how the EU would approach this and how will you counter it by trying to have our own strategy? The EU wants some advantage from this—it is not just us, it wants that too. Does it not pay the EU to be difficult with us over some aspects of the equivalence regime?

John Glen: I do not want to be naive but I also do not want to project hostility. At the end of the day, we have a situation where we have enjoyed close trading relationships. We have been intimately involved in the formation of rules and how we work together and observe common standards in financial services. We have a dialogue that we envisage will lead to the granting of equivalence. You quite reasonably point to the aspirations that particularly the French have, with asset management moving to Paris, and other aspects of financial services moving to Frankfurt. What I hear time and again in my conversations with the chief executives of banks, insurance companies and financial institutions is that, although they have made contingency arrangements over the past two years, they were virtually always modest.

There is enormous value in the hub effect of the City of London. That was reinforced for me when I visited Malaysia, Indonesia and Japan in the autumn of 2018. I spoke to the governor of the Bank of Japan who gave me a very clear, accurate and surprisingly detailed analysis of the virtues of Frankfurt, Dublin, Paris and other European destinations, but he was also keen to observe to me that the City of London has all those dimensions brought together. You are right to say that there must be a desire in other capitals across the continent of Europe to look at what they can do to maximise their advantage, but they need access to the deep liquid capital markets of the City of London and we want them to enjoy that access going forward.

Baroness Liddell of Coatdyke: During the referendum campaign and the election campaign there was a lot of reference to the ability to diverge; one of the attractions was that we could set our own rules. If you have a situation where there is divergence in equivalence, how does that affect the relationship with other third countries? Are you absolutely confident that at the end of the transition period other third countries would accept the equivalence regime if there was divergence within it?

John Glen: It depends on the nature of the divergence and its effect: who initiates it and what the outcome would be. It is very difficult to surmise exactly what would happen without looking at practical examples which I do not want to get into now. While I am very cognisant of the different aspirations for divergence that exist in different parts of the industry, we are not at that point. I am keen to reinforce our core message, which is that we want to observe the highest standards. What you are asking me about is the consistency of our relationship with third countries and how that would change when we are outside the EU bloc. As I said earlier, we have sophisticated mechanisms through EFDs and global financial partnerships bilaterally. Again, given that we are in a common place with the EU 27 now, our starting point is solid. We do not see ourselves seeking to differentiate ourselves by less regulation and less high standards. I do not think we are going to see rapid and urgent change in the dynamics of those third-country relationships.

Q75 **Baroness Neville-Rolfe:** Minister, there have been a number of warnings that the UK should avoid becoming a rule taker in financial services after the end of transition. What are the risks associated with maintaining regulatory alignment with the EU? Is some degree of regulatory divergence inevitable going forward?

John Glen: I indicated earlier that sometimes we have a different instinct in terms of our outcome-based approach, and that is significant. It means that we may seek to do things differently but that we want to observe the same high standards.

Is it inevitable that we diverge? Nothing is inevitable, but we want to do what is right for the financial services industry. I cannot anticipate the way that EU legislation will develop in the future and whether that will be in the best interests of our wholesale markets and their interconnectedness or with our retail and domestic financial services industry. What I have to do is make sure that we do the right things for the United Kingdom within the global context.

We will have a common starting point. As I said earlier, the issue is what the structured mechanism is to look at when things change on either side. How would we evaluate changes that the EU may make in a way that would then change our position? It is important to reinforce the fact that we are at a solid starting point and it could be unnecessarily provocative at this time to suggest changes when we do not know how the EU is going to evolve.

We are changing financial services significantly through the use of technology and AI. Banking will change with open banking in the UK and Fintechs, as we have discussed. Crypto assets, the challenges of the internet and investments all mean that there is a dynamic set of issues for us in government and our regulators to work on. We cannot anticipate how the EU is going to respond or how similar its approach will be.

Baroness Neville-Rolfe: Andrew Bailey told us that we would both have to review our rulebooks in the light of the changes, including the ones you have mentioned, such as the digital change, of which he has been a great champion. Are you comfortable with that?

John Glen: Yes. We have to be ready to step up to the mark and do two things: observe continued systemic stability concerns and make sure that we respond to them in a dynamic way. Crucially, we must also make sure that we are optimally positioned for competition opportunities. We have great virtues in the UK financial services sector. Many people are looking at innovation in how they interact both within the industry and with their consumers. That will need an evolution in how we approach it. We have done some interesting things. Since 2016, we have had the new banks start-up unit from the PRA which created a mechanism for new banks to get licensed and move forward. I am interested in how we look at their pathway and how they have meaningful competition with the big banks in a fair way that does not create systemic risk to our economy.

Baroness Neville-Rolfe: That is obviously an area of opportunity. Can you talk us through the opportunities a bit more? You mentioned the levelling-up agenda earlier and how many jobs were outside London, which I find extremely interesting. Is there a distinction between wholesale and retail, which again you touched on in your opening remarks?

John Glen: Yes, there is a distinction between wholesale and retail, and obviously the wholesale issues are more complex. The other thing with this area is that it is not easily digestible because it is necessarily quite dynamic and technical. What I want to see is a situation where we are responsive to changes and we are enabling. One thing we did with Fintech, for example, was to set up Fintech bridges, and last week we celebrated the success of the Hong Kong and the Australian Fintech bridges. We have found a mechanism to allow entrepreneurs to engage with regulators so that they could access markets and grow their businesses, and I want to see more of that. I have mentioned the banks. The high street is changing with respect to banking and that is something we have to address. As you know, going into a bank in south Wiltshire is not as easy as it used to be. Banking will have to adapt, but people still need access to cash and we are committed to intervening and supporting the industry as it develops its solutions to that.

Baroness Neville-Rolfe: That is good news for Salisbury, but what about some of the other areas such as Scotland, Manchester and Newcastle. I think you mentioned Leeds as a centre, as well as Cardiff.

John Glen: Yes; Leeds, Birmingham, Cardiff and Manchester. You will have seen what the Chancellor set out in his ideas about freeports. I was a PPS to the previous Chancellor but two when he came up with that idea, and now we have an opportunity to move it forward. We are looking at interventions that invest in the infrastructure of our country in the broadest sense so that we can allow businesses to flourish.

We have the Financial Services Skills Task Force and now we have the commission, which is going to look at how we can invigorate the skills that are needed for financial services. When I go to Starling Bank, the people who are setting up that entity and moving it forward at a rapid pace are not necessarily bankers. They are experts in the application of the technology to provide banking services. It is the same at Revolut. That is a shift, and regulators and government will need to adapt in terms of how we incentivise and encourage the skills development to feed those industries.

The Chair: I want to go back briefly to regulatory divergence. How do you see Parliament being kept informed of or involved in any regulatory divergences?

John Glen: Parliament is absolutely crucial to this. I took through a very large number of statutory instruments, as you are aware from our conversations previously. Through that process, we had a number of conversations with groups of Peers and colleagues from the House of Commons. I am committed to continuing that dialogue and making statements to the House. The Prime Minister set out at Second Reading of the legislation that that commitment is real. Moving forward, you may address in further questions the way we move to a different process of scrutiny in an environment where our financial services regulation is not driven by the EU.

The Chair: Yes, we will come on to that.

Q76 **Lord Desai:** You have covered most of this. I gather that a report or a review of the future regulatory regime is coming out?

John Glen: The framework; yes.

Lord Desai: How will it change things as compared with what they are now? What differences are we going to see?

John Glen: The future regulatory framework is a major long-term review. It was launched in June by Chancellor Hammond in his Mansion House speech, where we met Andrew Bailey and Sam Woods. We responded in the first phase to the concern that I have seen expressed a lot over the last two years around what they call "air traffic control", where you have the payments regulator, the PRA, the FCA and bodies that legitimately have different initiatives and things to comply with. There is the sense that we almost need a Gantt chart to clarify what all the lines of intervention are and organise them. We made a call for evidence in July, which closed in October and we are going to respond to it imminently.

Your question goes to the heart of the future relationship between Parliament, the Treasury, the PRA and the FCA as to who does what, who is responsible for technical standards and how those relate to each other. What we hope to do is establish a dialogue to look at that, gather views and establish what would work appropriately to get a balance between scrutiny and accountability that allows regulators to take decisions proactively where that is appropriate and necessary for market confidence and security.

Lord Desai: I see all that, but the FCA had a huge problem with Woodford. It was something that should have been prevented. I have seen no reaction to that mistake by telling the FCA, "Get your act together". That was very damaging because lots of ordinary people's money was involved and they do not like it.

John Glen: No, of course they do not.

Lord Desai: They expect the Government to take care of these things.

John Glen: Of course they do, but we do not live in a world where there is no risk whatsoever. It is very important that we get the balance between world-class regulatory oversight and intervention when things go wrong, proactively developing regulations that minimise the risks, and recognising that we can never be totally risk free.

You refer to Woodford. We had London Capital & Finance and mini-bonds as well. I met Andrew Bailey numerous times to discuss Woodford and he is undertaking a review. That goes to the heart of some specific issues around liquidity; what is deemed liquid and what was not deemed liquid, how the FCA interpreted a regulation around liquidity and whether certain exchanges were liquid or not. I am taking a very close interest in that review. These things are complex. It is not a question of me as a Minister or the Government overall declaring that something should happen when it obviously has to be looked at very closely and carefully, but urgently. I am not shy of intervening. We had a review last year—the Cranston review, in a different sphere—looking at the Griggs compensation scheme for Lloyds, which came out with some significant observations as to how that should have been done better. That is now being acted on, so we do intervene and we look very carefully. However, it is an unusual industry in that we have a significant regulator, we have systemic stability structures and challenges that need to be observed, and then we have the retail interface in Parliament.

Lord Desai: You stress test banks. Are you going to stress test regulatory institutions? It might be a good idea.

John Glen: We are getting into slightly different territory. On 16 March, Andrew Bailey will be moving to his new job and the process is ongoing to find his successor. As I look at the future of the FCA, my observation would be that in an era of significant change in financial services, we must have people at the top of the organisation who can look at the future, anticipate where things need to change and be proactive in designing rules that protect consumers in a reasonable way while allowing innovation in our financial services industry. It is a delicate balance.

The Chair: That leads nicely to Lord Thomas.

Q77 **Lord Thomas of Cwmgiedd:** I want to continue the theme of regulation, Minister. What thoughts do you have as to the changes that are necessary to the way in which we make regulators accountable, assuming that you move towards more power in the hands of the regulators, which one assumes to be the right approach? That is a very different approach from the EU. How are they to be made accountable? It is of particular interest to us because obviously one needs to think through accountability in the sense of whether those who supervise, or to whom the body is accountable, have enough expertise not to be bamboozled by regulators or by those they regulate. What thoughts do you have about that and where do you see Parliament fitting in?

John Glen: Members of Parliament get direct feedback on the conduct of a financial services firm in their surgeries and from industry engagement in Parliament. That is currently and will always be crucial and central to the process, but we have to ensure that we get a balance. We have several thousand people in the FCA regulating a large number of entities; I think maybe 60,000. Some of those will pose very little risk whatsoever and obviously some will not be in that category. The distribution of FCA resources to reflect the evolving risks that exist within their regulated entities and which entities should be regulated in the future, is key. The FCA should not be complacent or static and there should be updates. At the moment, the principal interface with Parliament is through the Treasury Select Committee, and the FCA has non-executive directors who challenge as well. That question is different from the one that the future regulatory framework examines, which is about the reallocation of powers and policy origination in a world where it does not come automatically downloaded from the EU. It has to combine both of those. There is the ongoing conduct and the matter of origination of new regulations that are fit for purpose going forward.

We have to think about how that challenge is effective. It is not just about consumer protection, which is obviously crucial. If we think about crypto assets, I want us to be world leaders in every area of financial services, so an enabling assurance from a fit-for-purpose regime is part of that. It is not just about saying no, it is about saying yes with appropriate safeguards. That is something we have work on.

Lord Thomas of Cwmgiedd: If you look at the question of accountability, there are two accountabilities one is concerned about. One is accountability for the design of the system and how you supervise the general setting of the regulatory objectives and the second is an inquiry if something goes wrong. Let me concentrate on the first, which is by far the most difficult. The Bill will give, and rightly so, different and possibly incompatible objectives because you have to balance them. Could you be a bit more specific, because we are not dealing with an ongoing negotiation here but something central to the future?

John Glen: We have said that very shortly we will produce a White Paper which will set out the Government's vision. It would be reasonable for me to rely on the White Paper being published imminently to set out the vision.

Lord Thomas of Cwmgiedd: Will that set out the specifics about the role of Parliament?

John Glen: Yes. The second phase of the future regulatory framework is launched in the White Paper, so the two will run together. They cannot be done separately. We need a vision for the future of financial services, which the Chancellor and I are working together on, and the FRF phase 2, beyond the air traffic control which we will imminently report on, will be embedded within that.

Lord Thomas of Cwmgiedd: Will it deal with the question about the way in which someone holds accountable the regulators and the way in which the different regulatory objectives are dealt with?

John Glen: That is right.

Lord Thomas of Cwmgiedd: That will all be in the White Paper.

John Glen: That is right.

Lord Thomas of Cwmgiedd: That is a fair answer.

John Glen: I find it frustrating—

Lord Thomas of Cwmgiedd: As long as we can look forward to something detailed and specific from your officials, I will not push anything further.

John Glen: My officials have plenty of detailed briefings here and I have spent a lot of time thinking about this. I would love to be able to go into every industry and tell you the vision for each one today. I do not think that is appropriate, but the work is being done and I expect to be held to account for it by you and others in Parliament.

Lord Thomas of Cwmgiedd: Maybe this is a subject we should come back to after publication.

John Glen: I am very happy to. This is my 11th Select Committee hearing in the past 26 months and I am very happy to have a 12th.

The Chair: I am sure we will be happy to invite you back.

Q78 **Viscount Trenchard:** Minister, could I ask you whether the White Paper you have been talking about heralds the introduction of the upcoming Financial Services Bill which was mentioned in the Queen's Speech? Would you expect the Bill to involve provision for regulatory divergence from the EU or do you think it will introduce a new, more outcomes-based approach to financial regulation? If so, in which ways?

John Glen: The Financial Services Bill will include three key elements. We have to deal with future access to the UK market by financial services firms in Gibraltar, how we handle overseas investment funds, and how we onshore and deal with Basel legislation. For the future, the right thing is we have the White Paper and the FRF review from the spring going forward, and I am sure that there will be future financial services legislation. You can appreciate that this year is about the equivalence decision and getting the FTA through. This is not the time for us to be setting out a complete, directive-by-directive view of the future. We have to do things in the right and appropriate sequence.

Our instincts around outcome-based regulation are to try to avoid a situation where we overburden firms by delivering appropriate and necessary regulation in an onerous way. That is obviously very important. I would like to be more prescriptive, but it is not the right time for me to go into that.

Viscount Trenchard: It is not necessarily going to be a single Financial Services Bill, as was intimated in the Queen's Speech.

John Glen: No, it will be a Financial Services Bill and I have just set out the three core and most important elements. There will be other elements in it, which I am not at liberty to talk about today.

Viscount Trenchard: One of them will refer to Basel. The former Chancellor noted that we will need to implement the newly agreed Basel rules, but when Sam Woods spoke to us, he mentioned that the agreed Basel rules are not the same, or we think that the EU has not properly implemented them in that the EU has allowed banks' investment in their own IT systems to count towards their capital. In every single Basel jurisdiction in the world, apart from the EU and Switzerland, all of that is done through regulators' rules. Would you expect that it is likely that we would already, in implementing Basel, show some degree of divergence from the EU?

John Glen: We made commitments on Basel at the G20 and we want to strengthen the regulation of global banks that are headquartered here. Your point about the different way that the EU has handled, or may handle in the future, its similar commitments is obviously a matter for the

EU and one that we will have to be very cognisant of as regards how we do it. I want to be clear that we cannot have a situation where we are in a less advantageous position to others, but we must do what is right for the systemic security of our financial services industry.

Viscount Trenchard: In answering other questions, you have talked about establishing a framework to assess the degree of divergence and the consequences of divergence from the existing EU regime. Do you think that that should be any different from how we assess the consequences of divergence from the US or the Japanese regime? If we enshrine in law a special position concerning our differences or our divergence from or convergence to EU regulation, it will inevitably make it more difficult to establish close regulatory agreements with the US, Japan, Singapore and other leading financial centres. Do you think it would be better to do all of that through IOSCO and international fora rather than having specific arrangements for the EU which imply that we are always going to be closer to the EU than to other regimes?

John Glen: I do not accept that characterisation of the way we approach the EU vis-à-vis other regimes because it is an important trading partner with respect to financial services. It is important that we clarify the context of our future relationship in an FTA, but it is also important that we do not embed rule-taker risk. It is important that we have the freedom to make decisions in the future that are in the best interests of the financial services industry, but with a structured dialogue and clarity for both sides on the implications of any future divergence when we may or may not wish to go down that route.

You make a very reasonable point about global standards. Earlier in my remarks, I set out four or five bodies where we have an instrumental role in leading, guiding and participating. I expect that my colleagues in the regulators, in the Treasury at senior official level, as well as government Ministers, will continue to engage in them. They set the framework. Our choice is then how we implement evolution in those standards. That will be a matter for us and we will do it in an outcome-based way. How the EU chooses to do it will obviously be a matter for the EU and I respect its sovereign right to do so.

You have hinted at the implications for a deterioration in the dynamic with our bilateral trading relationships with Japan, on which you are obviously an expert in this country, and with the US and others. We have good frameworks and relationships through regulatory dialogues with those jurisdictions, so I do not envisage that the outcome of our situation with the EU will lead to a diminishing of the opportunities that exist in those countries.

The Chair: Will we see the upcoming Financial Services Bill before the end of the transition period?

John Glen: The timetabling of such matters is a matter for the Leader of the House and I am genuinely not at liberty to know when that is. I am part of a Government where I co-operate with my colleagues. I am keen to get on with my job.

The Chair: I have no comment to make on that.

John Glen: It seems to be the professional and responsible way to carry on.

Q79 **Lord Vaux of Harrowden:** I want to ask about the global financial partnership strategy that you touched on in earlier questions. What are the international opportunities that you have identified for UK financial services as part of that strategy?

John Glen: There are four elements. There are the global financial partnerships for which we have set the framework with respect to Singapore, Hong Kong, Japan, Switzerland and the US. I see us having a clear opportunity to strengthen our ties with those markets. They are fast-growing markets where we have set out our principles. We believe in quality regulation based on international standards and deference based on a belief in similar outcomes for the benefits of the market participants. Those are bespoke dynamic relationships that will have different outcomes based on the nature of the relationships we have in different parts of the industry.

We then have the economic and financial dialogues with China, India and Brazil. I anticipate that we will have those this year, notwithstanding the potential risks around travel. Then we have interventions in different industries, such as the Fintech bridges I referred to earlier. We will look at where there is economic value in sustaining, deepening and doing more of those. Then there is the free trade agreement with the EU.

We set out our negotiating mandate for the US free trade agreement on Monday. Again, that is about expanding opportunities for UK financial services to ease frictions in cross-border trade and investment, and complementing co-operation on financial regulatory issues. I met some regulators from the US at state level yesterday morning, from about six different states. These are multidimensional, complex, bilateral discussions with different countries. We look to negotiate free trade agreements with Australia, Japan and New Zealand. As I said at the outset, our opportunities are significant. This is a fast-growing market and we are a very big player in it. We will take advantage where we can and where there are good relationships in place. The frameworks I have just set out provide the mechanisms by which we can realise those opportunities for market actors.

Lord Vaux of Harrowden: Where do you see the greatest opportunities among those?

John Glen: That is, of course, a very difficult thing. I do not want to say one or the other because we want to have all of them. You can look at the statistics to see the nature of trade. It is worth examining the global demand for financial services, insurance and pensions, which has grown by nearly a third since the financial crisis 12 years ago. Much of that growth has been in emerging markets. Over the same period, the UK share of global exports in those industries has decreased from 23% in 2008 to 19% in 2018, when we exported around £84 billion. There are opportunities but there are also much bigger baseline markets in the EU, the US and Japan. We want to use the strength of our diplomatic relationships and our historic ties with a whole range of countries to expand opportunities for UK exporters.

The Chair: We will conclude with a broader question.

John Glen: This is the googly, is it?

Q80 **The Chair:** I doubt it. It is simply a question about what your other priorities are with respect to financial services, particularly green finance.

Lord Giddens: Lord Chairman, could I add to that? Going back to the original question, Minister, you radiate calm. That is what doctors do just before they tell you that you are seriously ill. Where are your anxieties and worries? You must have them because there are all sorts of issues in the wider world as well as in our relationship with the EU. It would be good to hear about your main concerns and where you think the weak points are.

Lord Desai: He is not going to tell you.

John Glen: I am very fortunate in that I have been able to do this job for longer than some. What we have seen over the last—

Lord Giddens: Perhaps you could respond to the question.

John Glen: I will, of course; I am sorry. Over the last 12 months, we have gone through an enormous period of disruptive politics. I have tried to keep focused on the job, and for the last year a lot of it was about taking through well over 50 statutory instruments for a no-deal outcome. That engagement allowed me to deepen my understanding of different elements of the financial services industry.

I have no secret anxieties, I work to overcome anxieties. I do that through dialogue with our regulators. You have asked me, Lord Sharkey, about the future and any concerns and opportunities that I have in my mind. I have already spoken about the technological revolution, the application of technology and the challenges they present for consumer access. Lord Desai talked about the expectation that there is an intervention before things go wrong and that they are cleaned up properly. That is something I am concerned about as things evolve. For example, in an era of low yield, if somebody wants to seek higher returns and they go on the internet, they need to have some understanding of how that environment is regulated. Those are matters that concern me because not every consumer has the same access to information to make informed decisions.

At the countrywide level we need to embrace green finance. We made some steps forward last summer with our green finance strategy.

Governor Carney is going to take on a wide-ranging role with a significant presence embedded within the Treasury looking at how we deal with financial disclosures. How financial services fully embrace the opportunities of investing in green technologies is something that we need to grip systemically as a country, and that will come to a conclusion at COP 26 in Glasgow in November. The appointment of Mark Carney as the finance adviser to COP 26 will put the issue of financial services front and centre.

I want us to have confidence as a country that the UK is a safe and transparent place in which to do business when it comes to world-leading regulators, and that we are nimble, which is a word that has been used a lot; the Chancellor has famously used it a lot. We also need to be nimble in how we adapt from a regulatory and policy point of view to the opportunities and challenges that exist, think about international competitiveness and the fact that we are in a world where consumer expectations are changing rapidly. The opportunities for increased access to more consumers are changing rapidly across all the different industries.

When we get to the end of this year, we need to continue to have an appetite for leadership in financial services and maintain our world-leading position. We need to keep the revenues from our tax receipts from financial services as well, as we approach a Budget. We want to invest in the infrastructure of this country. We need a growing economy, and financial services have a massive role to play in the City and outside, across the regions of the United Kingdom.

Lord Turnbull: We have an opportunity to look at the rulebook we have inherited, which is derived from the regulatory philosophy of the EU, and recast it in line with our philosophy. Is one of the aspects that might be looked at again the differentiation between how regulation affects large versus small enterprises? Small enterprises find it relatively more costly to follow some piece of compliance. They may be at a higher risk of failure, but the impact of their failure is much smaller, so the case for lighter regulation there seems to be strong. Is the large versus the small something that you are thinking of as a particular aim?

John Glen: Thank you very much for raising that. It is a helpful prompt. The biggest banks and their economic footprint, and how they are challenged competitively by challenger banks, is an area of great interest. It is one thing to have a start-up unit that allows banks to get going, but it is another thing to see them in meaningful competition. There are universal capital requirements and the regulator will apply those rules to different institutions in a similar way. We need to have a conversation about our tolerance as a country for the failure of financial services firms and to come to terms with that if it is underpinned with a compensation regime that is robust and understood.

You are right to say that smaller entities will not present the same systemic risks. They will not be 'too big to fail', but they will pose the risk of disruption to individual consumers. The question is, what level and what threshold of underpinning do we want, and what tolerance do we have of failure as the price of some level of improved competition? That is a very key question. It is quite a complex one to answer, but it is one that the White Paper and the FRF should draw out. It also goes to the heart of how the FCA and the Bank of England look at their role in enabling competition or competitiveness at the national and the global level in the context of what I do not want to lose, which is the stability we have. We do not want to go back to where we were in the run-up to the financial crash where, arguably for a decade, we did not make the sorts of interventions that we could have made. There was, it seems to me, global consensus not to do so and it had significant costs.

Lord Vaux of Harrowden: I want to touch on one of the anxieties that Lord Giddens mentioned. We touched earlier on data adequacy. I think you indicated that given GDPR et cetera, we were almost by definition aligned. There has been quite a lot of speculation that data adequacy could fall foul of politicisation and that we may not be granted data adequacy by the end of the year. I want to get a feel for how ready you think the industry is in that respect and what the consequences would be if we did not get it by the end of the year. We had some slightly alarming testimony in a previous session that indicated uncertainty about readiness.

John Glen: I draw your attention to the remarks of Sam Woods and Andrew Bailey when they appeared before your Committee last month. They stressed that the Bank of England Financial Policy Committee has been closely monitoring the risks associated with disruption to cross-border data flows. You reasonably point to the risks around that decision. All I can point to is the facts around where we are now. I am a politician and I do not want to add fuel to the fire. At the end of the day, it is a technical decision and should not be controversial. Whether it becomes so, we shall see, but I am trying to make sure that we focus on what the facts show and where we have been in deep and close alignment over many months. We have worked very closely in partnership at the official level and the ministerial level. You are seeking to engage me in speculation, but I am not sure that it is helpful for me to do that.

Lord Vaux of Harrowden: My question is more about the readiness, if it were to happen, and the impact that might have.

John Glen: Again, I am not going to speculate. All I can tell you is that our regulators at the highest level, at the Financial Policy Committee, are looking at the risks associated with that. We have made significant provision across deep dialogue with the regulators over the past two years to ensure that we have contingency arrangements in place.

Baroness Neville-Rolfe: I associate myself with Lord Turnbull’s prompt about the smaller banks and the smaller financial services because I think that is incredibly important. When we set out on this study, we all said that we want to try to make sure that the system encourages innovation. I leave you with that point because it is going to be the thrust of our report.

I have a question about how you encourage financial services overseas. You particularly mentioned the relationships with bigger countries in which I have an interest. I now work in south-east Asia trying to encourage investment. Clearly, those markets have lots of potential for selling insurance, pensions, banking services and so on. Is that an area of opportunity that the Treasury is able to help with or does it sit somewhere else in the firmament?

John Glen: We use frameworks similar to the global financial partnerships model for those dialogues. I went to Malaysia, Indonesia and Japan in September 2018 and I had an experience similar to the one that the Prime Minister must have had, when all the agents from the Pru mobbed me as I went into some meeting. That does not happen in Salisbury, I can tell you. It was an interesting experience to see the enthusiasm for financial services.

As regards how we relate and how we maximise opportunities, we work very closely with industry and we have lots of structured dialogue. I have chaired the Asset Management Task Force for the past two years. Its ideas and inputs drive our conversations with our international friends. We have been in a situation where moving those to a conclusion was being inhibited by where we were, but the bandwidth across government is fully focused on maximisation of those opportunities.

The Chair: That concludes the session. Minister, thank you very much for your time and for your evidence. I am sure that the Committee will be extremely happy to see you again before the end of the year.