



FTreasury Committee

Oral evidence: [The economic and financial costs and benefits of UK membership of the EU](#), HC 499

Tuesday 19 January 2016

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Members present: Andrew Tyrie (Chair); Mr Steve Baker, Mark Garnier, George Kerevan, Chris Philp, Mr Jacob Rees-Mogg, Rachel Reeves, Wes Streeting

Questions 510 - 609

Examination of Witnesses

Witnesses: **Guy Sears**, Interim CEO, The Investment Association, **John Barrass**, Deputy CEO, The Wealth Management Association, and **Jiří Król**, Deputy CEO, The Alternative Investment Management Association, gave evidence.

Q510 Chair: Thank you very much, all three of you, for coming to give evidence to us today. I think it is fair to say that, on the whole, we are looking at a troika of people who are somewhat less enthusiastic about the benefits to their industry of EU membership than our last set of witnesses, who were from the major banks. If that is an incorrect presupposition, I am hoping that that will become clear in the course of this morning's hearing. May I open with exactly that point and go from left to right? Mr Sears, is it correct to say that the industry with which you are so familiar would be better off out?

Guy Sears: We represent the Investment Association and many of the major asset managers. There are over 200 firms in our membership, so it is quite a broad church, presenting a diverse range of services and products to people. My board has discussed this and we are firmly of the view that membership of the European Union has brought significant benefits to the UK's fund industry, particularly through our ability to passport services from the UK into the European Union.

Labouring that, to explain some of the data behind it, our members manage £5.5 trillion sterling from the United Kingdom on behalf of a range of clients, both domestic and international. Of that £5.5 trillion, we think something like £2.2 trillion is managed for non-UK clients—people other than retail clients, UK pension schemes or UK insurance products.

Of that money, some £1.2 trillion is managed on behalf of EU-based clients who are not UK. That £1.2 trillion run from the UK is the same size as Germany's asset management industry.

In total, therefore, the UK's very successful, competitive set of asset managers manage 37% of Europe's assets under management, so our industry is bigger than the industries of France, Germany and Italy put together. From that point of view, I think it speaks for itself. We have had considerable success within the single market.

Q511 Chair: So you would support the view of the major banks that it would be deleterious to the interests of your industry to leave.

Guy Sears: From a narrow point of view, looking just at our sector and how they have done, it is certainly the case that it would give rise to significant changes and disruptions. No doubt, we will go through some of that this morning in terms of what would need to be done—

Q512 Chair: I am sorry to press you, but it would be helpful if I could have a clearer answer to the question.

Guy Sears: Well, the success in Europe of having 37% of Europe's assets and having significant net export earnings—in the billions—would be hard to replace. But in terms of how we would restructure, I think that, as ever, our industry would reluctantly adapt to new rules and seek to exploit them as London always has.

Q513 Chair: Isn't that the point that we are here to try to explore—would you be better or worse off if we left? I am just trying to clarify whether your part of the industry has come to a settled view on that. Do you want to be in or do you want to be out?

Guy Sears: We have not come to a conclusion. It is not for the trade association to have a position on whether we should be in or out. What we have majored in as the trade association is the technical, fiscal, legal and regulatory changes that would need to occur, depending on what the new settlement would be with Europe. That is what we look at as a trade association.

Q514 Chair: So let's try to summarise your position. You are happy to be in, but you might well be happy to be out.

Guy Sears: That is entirely possible for the broad church of membership that we have—

Chair: Is that an accurate summary?

Guy Sears: —but as a trade association we can only represent the things we look at, and what we look at are the technical, legal and regulatory issues that would arise if we came out. Whether different businesses would benefit or not I think will depend on what they do

presently. Some are very UK-focused, and we are very confident that we will continue to provide professional services to UK clients in the domestic pension industry, for example. Some are very European-focused, and they would clearly have significant disruptions to their operations and how they organise business, and some are global.

Q515 Chair: I am sorry to press you, but we have asked you to come before us because we are hoping you can give us some balance of the arguments as you see them on the basis of the industry with which you are so closely connected. It would be very helpful to have that aggregate assessment. Am I wasting time? Will I not get it from you, however hard I try?

Guy Sears: I don't think you will, Chairman, in the sense that we have not made that balanced assessment. We do not yet know what the question will be in the referendum, we do not yet know what any renegotiation will be, and the assessment will depend on that and individuals deciding that. Indeed, as an industry the vote is not for us; that is a matter for citizens.

Q516 Chair: When you have seen the renegotiation, will you make an assessment at that time?

Guy Sears: I think it is unlikely that we, as a trade association, will make that assessment.

Q517 Chair: Mr Barrass, would you like to have a go, on behalf of your members, at the same set of questions? If we can cut to the quick, that would be wonderful.

John Barrass: All right. Let me very quickly differentiate the sector I represent from the IA sector. We are all involved in managing funds, but we are the retail people. I represent about 110 firms that include brokers, who provide online and offline services in relation to trading on markets or exchanges; 94% of retail trades in this country on stock exchanges are done through our members. We also provide advice to retail consumers, and discretionary management of the retail funds that they have to invest. We have about 4.25 million customers and about 6.5 million customer accounts. In terms of the figures, we manage about £770 billion sterling in private money. Being in the retail sector, we are governed by a bunch of title rules for the institutional sector relating to certain things we can do regarding clients and what we can invest in on behalf of clients.

The other aspect of the retail sector is that it is a part of the industry that is typically very member state or country-specific. The products in which people invest, such as ISAs, are not capable of export across borders, because the tax advantages do not exist in other countries and because the investment arrangements there are not the same. That is equally true of the German certificate, the Italian warrant or the French SICAV. These are not exported; they are retail products mostly used in those countries by the people there.

In terms of how the EU works for us, the big benefit is in the passport. For example, where you acquire clients overseas, you are able to service them from your office in the UK,

if they are in the EU. Where the movement of clients is quite regular—I don't know quite how many clients we have living in other European countries, but it must be about 140,000—they can be serviced directly from the UK. This is very beneficial and very advantageous.

The advisory services can be used in that way, but we benefit from the EU as such through the passport, not directly, in terms of the amount of cross-border business done by firms. They acquire clients from overseas because of the process of consolidation and merger, and you will get an international client base that will affect how the firm does business, but the use of cross-border facilities in the European context is more limited in the retail sector altogether.

Q518 Chair: Okay. Can I cut to the quick and have a view? Have you made any assessment of where you think you might be better off or worse off?

John Barrass: We have not made a balanced assessment in that way. We are having a debate with member firms about that, but we did not have a conclusion on it.

Q519 Chair: What about you, Mr Król?

Jiří Król: Good morning, Chair. I represent the hedge fund industry both here in the UK and globally. We have over 1,700 member firms around the world managing in excess of \$1.5 trillion. Here in the UK, it is an extremely diverse industry, with 460 member firms managing in excess of \$0.5 trillion, primarily on behalf of institutional investors, such as pension funds, insurance companies, endowments and the like. We employ around 40,000 people here in the UK directly and indirectly, and contribute roughly £4 billion a year to the UK budget. As a very diverse industry, we have members who are on both sides of the issue. We have had discussions internally at our various specialist committees, as well as at board level.

Q520 Chair: Would you say it is evenly divided among your members, or unevenly?

Jiří Król: We have not conducted any systematic survey of membership.

Chair: But you will be very close to them, so you can give us some guidance.

Jiří Król: Usually we take a view as an association by obtaining corporate positions from member firms. Most of the member firms have not taken a corporate view. We as an association have broadly decided that we are going to be neutral, because of the wide-ranging views that our members have expressed so far.

Q521 Mark Garnier: Mr Sears, can I come back to your exchange with the Chairman about this? I am slightly curious why, as a trade association, you have not taken a position on this. One thing that has been widely spoken about in the referendum coming up is that there are about 20% in the middle of the electorate who are as yet undecided and who will be looking to political and business leaders to get some sense of which way they should

be voting. They are waiting for some sort of guidance. Clearly, you are a leader within the investment management arena. Why do you feel that it's not your position to take a view on this?

Guy Sears: I think we are speaking on the things that we're qualified to speak on. As a trade association, we understand all those environmental issues to do with how we do business—regulation, legal and technical—and it's in that area that we feel that we can assist the debate in explaining what may be the implications of being in or out, and the changes that would happen. Beyond that, I think we're firmly of the view that we both represent a very broad church of businesses, but also that ultimately this is a matter for individuals to make a decision about. So we can't predict, and I think—

Q522 Mark Garnier: But as I say, with guidance from business and political leaders.

Guy Sears: I think that there will be some guidance from businesses and political leaders, but as a trade association that's not really what our focus is on and what we are seeking to do and assist our members with, which is to understand what the changes might be.

Q523 Mark Garnier: You talked about how you have got £5.5 trillion of sterling in asset management. Clearly, all of that is very carefully regulated, and I know that the solicitors and the lawyers have made a huge amount of money in structuring the funds that have been created. Have you made an assessment of how much it will cost to unwind all of that legal framework behind it and to replace it with one that is appropriate to a Britain outside the EU model?

Guy Sears: No, but I can help you to understand some of the things that may be involved in that. To do that, it's very important to get across that there are two types of activity that the UK's asset management industry carries on. One relates to the services that we offer, and one relates to the products that we manufacture and distribute.

As regards the provision of services, in the UK that is overwhelmingly the weight of the specialism and activity that goes on. Most of the work is about running mandates for very large clients on an individual basis. There is something close to £900 billion in funds that we manage, and about £900 billion in funds that are in Luxembourg and Dublin, but you can still see that that £1.8 billion is a significant minority of the money that we run.

So what would the impacts be? In terms of UK funds that are UCITS, which are clearly the ones that are often attractive to retail clients because of their brand and their ability to be passported across the EU, a Brexit and therefore the UK not being part of the EU would mean that those funds would no longer be UCITS. They would be seen as alternative investment funds, and the ability to distribute those funds would depend upon the passporting requirements of the alternative investment fund managers directive, which, by the timescale we are talking about, would be third-country passport arrangements.

In terms of the services, to explain, what I am using as a model is not presuming exactly what our relationship would be with the EU but taking as a model how the EU today

sees third countries and third-country bases, such as Switzerland, Jersey and the United States. If we were in the same position as that, to provide the professional services that are the majority of the business and activity that goes on in the UK to clients in the EU or for funds in the EU, there would be a requirement to show equivalence in the UK. Therefore, that would require that the core equivalence of regulation existed for managers that were based here and making investment decisions, and that the UK regulator had reached agreements with the regulators in Europe.

Q524 Mark Garnier: You talk about the fact that you have 37% of the European assets under management within the UK. Clearly, you have just described a situation in which, in order to market your funds into Europe, you will need to have this compliance with the rules. And yet, if we came out of Europe, we would have no influence whatever on how the rules are constructed, so I guess that you would try to maintain, and indeed grow, your share of the assets under management in Europe without being able to affect the rules. How will it help your members if we come out of Europe? I am not saying that you are suggesting that we do come out of Europe, but would that be a major problem for your members?

Guy Sears: Given that regulation does control your access to markets, being subject to a regulation without an ability to influence it is clearly going to be less than optimal.

Q525 Mark Garnier: Less than optimal or very bad?

Guy Sears: It would depend. To better explain: what is the nature of the regulation and would that regulation and the barriers that exist be generated and created by Europe, or do they exist for other reasons?

Post the crisis, a lot of the regulation that we are now subjected to has actually been first defined and considered at a global level—things like the Basel standards, but also the activities of the Financial Stability Board. There is an extent to which regulation, wherever you are placed, will have a certain characteristic today and certain components to it. But there are other things that will be purely in the gift of the European Union. Those particularly are of course the right to provide services cross-border, rather than the quality of regulation that is imposed on you.

I think it unlikely that significant things like the net stable funding ratio and liquidity coverage for the banks—the requirement to consider liquidity management and stability issues—will change, because we are in or out of Europe. It principally comes down to what the barrier to entry will be. If that barrier is high and replicates what is done for Jersey or Switzerland at the moment, then that will cause significant changes compared with how we act today.

Q526 Mark Garnier: It might be helpful to give an example of what it is like trying to get customers in another regime that is not part of Europe. For example, America has a huge amount of money under management and is a big and wealthy country. Of your £5.5 trillion of assets under management, how much of that is US money seeking a home in the

UK? That might give us a sense of where you don't have any influence on the regulation about how you can access those markets.

Guy Sears: I'm not sure exactly how much is US, but the global money is just over £1 trillion, so something close to 20% of the money that we run. I would imagine quite a bit of that comes from the US, but obviously there is significant Asian investment in and through the UK.

Q527 Chair: You are basically a European operation.

Guy Sears: I am not sure that I would see it in that way.

Chair: What is the other bit?

Q528 Mark Garnier: I think you said £1 billion is the rest of the world out of 5.5; that is 20%.

Guy Sears: £1 trillion. True, but in global terms that is a very significant component of an international market. Most markets are very domestic. In terms of success in winning international business, that is pretty significant. You won't see that probably outside of the US.

Q529 Mark Garnier: So it comes back to the question of London as a financial centre. London is clearly a very successful financial centre; I don't think anybody would disagree with that. To what extent do you think that is London's unique magic and to what extent do you think, for example, that that £1 trillion from the rest of the world is coming to the UK as, if you like, the financial capital of Europe, rather than a financial centre in its own right?

Guy Sears: That is very hard to tell, Mr Garnier.

Mark Garnier: Have you not tried to make an assessment?

Chair: It's a crucial assessment that you all need to make.

Mark Garnier: It really is. You are talking about £1 trillion of assets under management, creating a huge amount of wealth, and you are not sure whether that money is coming because it is specifically the UK or because it is part of a frankly complicated but well-regulated European market, which is the biggest single economy on the planet. You are the trade association; you must have an idea on that.

Guy Sears: I do have some, but to refine down to a final one or t'other is very difficult. I think it is exactly the same question as asking why London and Edinburgh are successful financial centres.

Momentum exists here; talent is attracted to the UK from all round the globe to work here. You can access a whole range of services, not merely asset management but banking, insurance and all the intangibles around it of lawyers, accountants and such like, all leading to, overall, a centre that is, as you well know, globally competitive and pre-eminent in many of the services. Now, has that contributed to how well we have done in Europe? Yes. Has that business from Europe contributed to the momentum that has continued to hold London and Edinburgh at the centre of success? Yes, it has. Unpicking it, it is difficult to see what would actually happen. These things feed off each other and you slowly build it. It is like winning business in new markets: you win that business and it builds, which leads to more business. We have benefited from being in the single market. London and Edinburgh—our other major centre—have done better on the statistics compared with other countries. We have outcompeted, which has brought in further business to an already successful London and has therefore reinforced that success.

Q530 Mark Garnier: Mr Król, your business is probably the opposite, as I would view it. The hedge fund industry, or what some like to call the alternative fund managing industry, is a much more global thing. I think all of your hedge funds have tax-neutral status, meaning that they are domiciled in tax-neutral domiciles and investors then pay their own domestic taxation. There is no question of avoiding tax; people just pay their own tax.

I think you suggested that it was 50:50 with your members and that some were quite keen on Europe, but others were not. I want to ask you the same question: do you think that London has a unique magic about it that attracts your members? To what extent do you think that it is possibly because of opportunities through Europe? I appreciate that that may be substantially less than for the Investment Management Association.

Jiří Król: I think London definitely has a unique magic when it comes to our industry. It is effectively the No. 2 centre for the hedge fund business around the world.

Mark Garnier: No. 1 being America.

Jiří Król: No. 1 being New York if you look at cities as opposed to jurisdictions.

The issues are quite complex in terms of which element of it is associated with purely UK domestic policy, language and legal system and then the benefits of the EU in terms of contributing to London being the No. 1 financial centre. Our members also benefit from the access to the single market. If you look at the popularity of the UCITS product, for example, in the hedge fund sector, it has been growing quite fast to the extent that, today, UCITS funds, which are a purely European product, constitute something like 30% of UK hedge funds under management.

Q531 Mark Garnier: So for them, it would be a problem, as we heard from Mr Sears.

Jiří Król: There would have to be restructuring associated with that if there were to be an exit from the EU.

Q532 Mark Garnier: Has anyone made an assessment of the cost of the restructuring?

Jiří Król: It is difficult to make that assessment if you do not know what the relationship between the UK and the EU will be.

Q533 Chair: So you are not doing any contingency planning.

Jiří Król: I think the industry will most definitely be conducting their contingency planning. They have fiduciary duties.

Chair: But you haven't seen it.

Jiří Król: At this stage, I believe it is too early, because it is still extremely open in terms of what the arrangements are likely to be. We have not seen the conclusions of the negotiations between the UK and the EU. I think the industry will definitely be obliged to look at—

Q534 Mark Garnier: Time is running out on this. We could, possibly at the latest, have a referendum in September or October this year. We are expecting the negotiation to be completed at the end of next month. Yours are huge industries, creating a huge amount of wealth for this country. There is the potential for huge amounts of cost. There is the potential for a degradation of the City of London. I completely appreciate that we have infrastructure and lawyers and accountants—very talented people—in this country and that international businesses come to London because of the value of the City of London, but if we start seeing international banks migrating or no longer investing and investing elsewhere in Europe to try to take advantage of passporting as we come out of Europe, there is the potential for an overall degradation of the magic of London. It may be imperceptible, but none the less for your members it could be quite profound. Even in the very short term, we don't know any more than that the question is going to be, "Are we going to be in or out?" We don't know what "out" looks like. We don't know whether "out" is going to be a fudged attempt to look like a Norwegian or a Swiss model, which has been losing credibility as time goes by, or complete independence, or some hybrid version. With trillions under management between you, it is very alarming—Mr Barrass, I have not asked you any questions, but I think I have run out of time—that there is no contingency planning, no concerted industry-wide view, even if you disagree with each other, and no assessment of the potentially phenomenal costs of coming out.

Guy Sears: You say there is no contingency planning. I don't think I have said that there is no contingency planning. These are matters for the businesses.

Chair: We haven't seen any evidence of it today, or so far.

Guy Sears: The contingency planning that a trade association—certainly our trade association—can assist with is helping our firms understand what we think would be the regulatory, technical and legal changes. We are doing that work, and we have done that work.

I have answered some of those questions today. How that commercially plays out in individual businesses is a matter for them; it is not for the trade associations to work out the commercial strategies of individual businesses.

Mark Garnier: You speak on behalf of these organisations. We are looking at this and trying to conduct an inquiry into the pros and cons. We come to you, the trade associations, to get that information, so that we can inform Parliament and the wider population, and you are not giving it to us.

Chair: That is what we are asking for, and that is what we do not feel we have had so far in this hearing. It is not just a lack of contingency planning on the risk of leaving; it is also an apparent lack of detailed work on what benefits there might be from being outside and the opportunities that might appear. There has been scarcely any talk from any of you about either of those so far.

Q535 Mr Baker: I want to get on to the EU legislative process, but before I do, I want to pick up on a couple of things. Mr Sears, you mentioned in passing that many of the rules that apply to you are global. Presumably, your members would like to participate or bring their expertise to bear in China, India, an emergent Africa or South America. Is it not the case that your members need to look out to the whole world and to conduct their business wherever there are assets to be managed and wherever assets are being created?

Guy Sears: Yes, many of the businesses have quite broad global reach. Some are based in the UK for that. Some are based in the United States. Some are based in Asia and have branches over here. We certainly, among our membership, have firms that seek to serve a very wide range of geographies.

Q536 Mr Baker: So would you rather be closer to those global rule-making bodies or further from them?

Guy Sears: The United Kingdom is already very close to those global bodies. We have the chair of the Financial Stability Board. We are an influential voice within the G20. In terms of the post-crisis legislation globally, the UK has clearly been part of the significant bodies that have shaped it.

Q537 Mr Baker: So would you reasonably expect there to be few changes in the event that we left the European Union, in terms of our membership of those global bodies?

Guy Sears: I am not expecting there to be significant change. The leadership of the Governor of the Bank, in terms of the FSB and such like—I cannot believe that would change overnight.

Q538 Mr Baker: Do any of you think that the British Government would be daft enough to do something thoroughly disruptive, like introduce sudden discontinuous changes

the day after a referendum? It's okay to say, "No. No Government would be as daft as to disrupt our trillion-pound industries." I don't think they would be, would they?

Guy Sears: I am not sure about being daft or not, but on some of the matters we are raising, it is not within the gift of the UK Government to decide what the impact is. If we leave Europe, UCITS funds are no longer UCITS funds. If we leave Europe, it is not automatically our right to be able to provide services into the European Union.

Q539 Mr Baker: If we can turn to the EU legislative process, how would you rate the accountability, transparency and effectiveness of that legislative and rule-making process? Perhaps I could start with Mr Król.

Jiří Król: That process is relatively well described and fairly open, providing a lot of opportunity for stakeholders, such as our industry or other member states and regulators, to feed into it. It is fair to say that the past five years in the post-crisis period have been rather extraordinary in the speed of enactment of regulations and the great number of regulations introduced. It was a big challenge for everybody to ensure that we were able to properly feed in and ensure that the regulations that are finally coming out are workable and achieve their policy objectives. But that assessment is valid globally. We have seen the same level. I think it was mentioned previously that the tsunami of regulation post-crisis was a global phenomenon.

Q540 Mr Baker: On this subject, Mr Barrass, the WMA's submission to the Balance of Competencies Review stated that the whole system for rule making in the EU "is a jumble of different institutions, concepts and documents with different and sometimes obscure powers assigned to each". Do you stand by that assessment?

John Barrass: Yes, that was made at the time when the Treasury paper came out, and it was towards the end of, but still in the intensity of, the crisis period. I think that what that refers to is some of the difficult procedures that there are and the interaction between the various institutions.

The Parliament, actually, is open. You can go to MEPs. You can draw their attention to issues. You can meet with different members of the parties. You can offer amendments to draft legislation—that kind of thing. So there is an openness there that is clear.

You can go to the Commission. The Commission is very welcoming, I find. The Commission is very good to go to. The officials there are very on the ball. You discuss things with them. They have an issue about 28 member states not one, but at the same time they try very hard to work with you and to understand what you are saying. They will talk to you at some length when you have good things to tell them, information that is interesting and of concern to them—it does not mean that you necessarily agree with them.

The problem you have is when, for example, you have three texts of a piece of legislation and you are getting into the trilogue system. Then it is completely opaque. We have had insertions made into the text at that time that should not have been subject to public debate, which have had a material effect on the way in which the industry works and,

crucially, on the way in which consumers understand the product they are going to get and the price they are going to be charged.

Mr Baker: Without any public debate.

John Barrass: Without any public debate, yes.

Q541 Mr Baker: Mr Sears, the Investment Association's submission to the same review said that the EU legislative system is "conspicuously and unhelpfully lacking in any way to create legitimate exceptions, or to amend legislation quickly... we are not completely satisfied that democratic due process is always properly respected". Do you stand by that assessment?

Guy Sears: In the right context, yes. The points that John has raised are the ones where the annoyance or difficulties occur, and I think that is held by some of those involved in the European institutions.

The two layers that are particularly difficult to follow sometimes are, first, during the crisis—that has, of course, coloured a lot of people's views of how Europe operates—it was very hard to see what that larger narrative was that we were aiming at, compared with, say, the period before, when under the financial services action plan the narrative clearly was to enhance the single market, open it up and challenge the monopolies of domestic stock exchanges. In the crisis, we therefore got a series of measures that were hard to reconcile at times, or were inconsistent in some of their approaches or showed a developing approach. The advantage now under Jonathan Hill's cabinet is that there is a cumulative impact review, so that we can go back and see those things that were done in the crisis and see where they need to be altered and amended to be improved.

In terms of the process, I agree with the WMA about the accessibility of the European institutions. Certainly for the UK industry, we have a very good hearing. We are met and listened to by a range of MEPs and the Commission itself, and of course the Council and many other Governments are always willing to listen to the UK about what matters in financial services. But when we get to the final part of a lot of the legislation—the trilogue process—that is something that particularly conspicuously is no longer transparent and can lead to some very last-minute and unexpected changes.

Q542 Mr Baker: Mr Barrass, could you characterise the amount of resource it takes you to develop the capacity to engage effectively with the EU legislative process?

John Barrass: We spend about a third of our budget on EU matters in one way or another—budgets are calculated in different ways, but it is about a third. In terms of build-up, it takes quite a while—you have to get to know people, you have to establish trust, you have to build their confidence in what you are telling them, in the sense that it represents a proper sector of the financial community, and you have to be clear with them that your line of argument is supported by evidence and by those in the industry. In the sector I work in, where you are dealing through firms with private clients and consumers, you need to have a strong feel for the way consumers feel about what you are doing with them in terms of the conduct

of business—the relationship with the firm, but also the product they are investing in. If you have a good story to tell on all those, then the build-up is good, you can get a good hearing, and people will listen carefully to what you say and take account of it. We have evidence of having had some successes in the way we discuss things with the various institutions in Brussels. The time taken in doing that is clear, and that is not that unusual in one sense—it takes time in any industry to build up your network and so on—but it helps a great deal to be a known person.

Q543 Mr Baker: I am just trying to get a handle on how many people that is. Presumably, you contract out some services to public affairs people. But how many people does that third of your budget employ to do this work?

John Barrass: Well, if you include the contracting out—it is not huge, but we use the services of a small operation in Brussels—and you take my time, which you can say is the time of one person, as well as the people who support me in the association and the committees, you are probably talking about half a dozen people, or perhaps seven or eight. But, of course, we put our material through the committees and so on, and I am sure firms would say they take a bit of time looking at that material and also independently reading stuff from Brussels.

Q544 Mr Baker: How do you think that level of resource compares with the resource available at big banks?

John Barrass: Oh, I think it's tiny. The resource we have in comparison with a big bank is very small.

Q545 Mr Baker: So your ability to influence the legislative process would presumably be correspondingly small.

John Barrass: I would just say two things on that. One is what you say: as a small organisation, we have to fight to make sure we get heard. I think we have been rather successful in that, but it depends a little on who is involved. The other point I would like to make relates to the unique structure issue. Without labouring the point, the UK has a very unusual—well, in European terms—structure in the industry I serve. We are more like an American or Australian model than the European one. That means we do not have a homologue, or a comparable association, on the continent to align with and make a European force.

Q546 Mr Baker: Could I ask Mr Król and Mr Sears whether they would like to add anything on that point, before I move on to my last question?

Guy Sears: On Europe's transparency register, we disclose an expenditure of, I think, €3.3 million—a little less than a third of our expenditure. But we throw into that, for transparency purposes, whenever we are working on a consultation in the UK, not just the

lobbying in Europe, just because of the way the transparency register works. All of my staff who work on regulatory and technical matters I would expect to be going to, influencing or talking with Brussels. We don't separate out that lobbying activity; it is part of our policy work. Probably, on average, we have more than one person every day in Brussels.

Q547 Mr Baker: We have already established that, typically, Mr Barrass's organisation will be less influential than banks. But, in the rest of the European Union, it is banks that provide the services that your members provide in the UK ordinarily. Does it concern you that it is possible that banks around Europe with higher levels of resource are just more influential than your members, who are smaller?

John Barrass: Well, it does—

Mr Baker: Sorry. Could I just let Mr Sears come in first?

Guy Sears: You can throw every resource at something if you want, but if the person listening is not interested in hearing or thinks that your views are not theirs, it does not really make any difference. The European asset management industry aggregates savings on behalf of millions of savers across the European Union, and we allocate that capital to businesses to assist in the generation of growth and the creation of returns. That is a core part of how the economy works. It is a very different activity from the one that banks take. In terms of Europe looking at whether it should rebalance its dependency on bank lending compared with market finance, it is certainly one that we can play a role in, as well as playing a role in a huge number of people's late-life provision. From that point of view, I am unconcerned that the banks have huge lobbying units. They offer a different service from the one we offer. Where people are concerned about trying to ensure that we get growth, the efficient allocation of capital and provision in late life for people, that is what we do and we get a hearing. I am happy about that.

Mr Baker: Thank you. Mr Barrass, I cut you off.

John Barrass: Sorry, I did not mean to interrupt you earlier. I would just echo the point about different services. We are not banks; we offer investment services and we do not deal in the deposit taking area at all. Where we have a private bank, we differentiate the wealth management services office from the deposit taking. That is for another association to deal with and other aspects of their business to deal with. We have the same sort of attitude in the sense that the banking industry is providing different services, so what it does is different.

There is one crossover that I would mention, which is important in the retail sector, and that is that the lack of firms like ours on the continent means that the individual goes to the bank to get investment in, say, a regional product, such as a warrant in Italy. That then means that you have much more difficulty in getting the independent advice and so on, because a bank will tend to sell its own products. The structure feeds back into the European Commission, and there is a tendency to find that legislation is made on the back of the majority structures. That works for banks and the internal issues they face when you are, for example, dealing with retail clients who want to make investments in products that the banks sell, but it does not work for independent firms or in another country.

Q548 Mr Baker: Mr Barrass, I will finish with you, unless Mr Król wants to add anything briefly.

Jiří Król: We employ roughly 12 people in government regulatory affairs at AIMA. Those people look after global regulatory developments, and those will differ from time to time. Sometimes we focus on Europe and sometimes we focus on the United States. On your point about the influence in various regulatory bodies, the European Commission, the Parliament and the Council listen to those who are specialists within a particular area. When it comes to asset management regulation, I would say that our bodies will be very influential in providing the right kind of input to the policy and regulatory process.

Mr Baker: Can I finally ask—

Chair: Other colleagues want to get in, so it will have to be very quick and with a very quick reply, please.

Q549 Mr Baker: I understand. The WMA's submission to the review said that amendments made in the European Parliament were often "lacking in focus, whimsical in reflecting the pet ideas... that are often only partially relevant". Can you give some ideas that were whimsical or irrelevant?

Chair: I do not think that can be done very briefly.

John Barrass: Very briefly, in the packaged retail investment and insurance-based investment products area there are a number of amendments that would have made things very difficult with the markets and equity—

Q550 Chair: Why don't you send us a short note with some more examples?

John Barrass: I can do that.

Q551 Chair: Thank you. Can I summarise at least part of the discussion that we have just had? That is the first part, about the decision-making structure. Would all three of you agree—I hope that we get a yes or no to this, because it speeds things up wonderfully—that much greater transparency in the decision-making process, not least in the trilogue, should be a central objective in the UK's negotiations on obtaining greater transparency?

Guy Sears: I think we would be advantaged by greater transparency, yes, and if more of the legislation was evidence-based. Can I say one thing? Europe also has the ESAs in ESMA and EIOPA and places. Transparency there would be beneficial, too.

John Barrass: More transparency would be better.

Jiří Król: We support greater transparency.

Chair: Right, so we have to open up co-decision. That is what we are all saying. Can I commend to you my own publication on how that might be achieved, “Ending the ratchet”, which I put out at the beginning of September? You may have your own suggestions. If you do, or if you think that that is going in the wrong direction, I personally would be very grateful to hear from you, even if colleagues on the Committee would not, although I suspect they would be, too.

Q552 Rachel Reeves: I want to look at the response of the EU to the financial crisis and the impact that has had on legislation that affects you. Do you think that, since the financial crisis, the legislation that has come from the EU has been proportionate to the financial stability and consumer protection risk posed by the asset management sector?

Guy Sears: No, not always. I understand why most of it was put forward, given the sheer amount of money that the sovereign states had to spend to bail out the banking system, and the financial system generally. That is bound to give rise to an understandable political reaction. Some of the European legislation that came forward, as I said, was derived from global commitments at the G20. De-risking derivative clearing and looking at banks’ leverage were both matters where the EU was following the global lead, but there have been some areas in which undoubtedly, now that there is a cumulative impact review, the industry and the European institutions will identify areas in which work can be done to improve the legislation that was passed, particularly in its horizontal application. Europe often operates in separate dossiers that draw distinctions between the AIFMD, UCITS and MiFID, when in fact groups are organised around all of these. Therefore, there is a lot of legislation that doesn’t really fit or isn’t consistent on a horizontal basis.

John Barrass: On the proportionality point, there are two issues that I would like to raise. One is proportionality with respect to firms. I mentioned just now that one of the difficulties we face is the tendency to make legislation based on the idea that, fundamentally, banks do all the work that our firms do. If you are looking at proportionality there, for a big bank you might take the overall institution and make rules governing the way in which it has to split up its work or take remuneration and that sort of thing, but if you apply that to small, independent firms for simply undertaking investment processes for retail individuals, it doesn’t work at all. You can get remuneration issues, for example, that can scupper the boards, and things like that. You can get proportionality problems where you are trying to impose costs that are proportionately less for a big firm and are big for a small firm, so that doesn’t work at all.

Q553 Rachel Reeves: Would you be able to give an example of what you mean by that? An example of where that has happened.

John Barrass: We have firms ranging from a couple of partners and, say, eight or nine staff right up to firms that are about 1,500 strong—that is the biggest independent firm. Of course, we have sections of banks. Big-name banks with wealth-management units are also our members, but it is the wealth-management unit that is our member, not the bank. That is a little different, but there are a small number of them. The independent firms come in a range of sizes. When they made the capital requirements directive and put the remuneration

proposals in, for example, it was extremely important for us to make sure that that didn't apply to the smaller firms. You are not getting the kinds of systemic risks that the bigger firms enter into and you are not getting issues to do with bonuses and so on, yet you have a remuneration arrangement that may well affect the way that that firm can pay its directors. You also have problems where you have two partners. You want diversity—we all want that—but the problem is how you impose a diversity principle, which is based on large boards, on two partners. It is that kind of thing, and it isn't really worked out awfully well at European level. It is much better done locally. We have had a number of issues there, and the local regulator in the UK is quite sympathetic to some of it.

That proportionality element in the way that the firms operate, because of their structure or industry, is an issue. Where you have the consumer, it is a little different. You have to be very concerned about consumer protection all the time. In this country we have a long track record of building regulation that is designed to protect consumers. It has had some successes, and there are some areas where it has not worked and we have had to put new regulation in place. I would not necessarily say that the proportionality element applies throughout on the consumer protection side, but the structure issue does apply on occasion. We have had one or two glitches that are a bit silly in relation to the way our industry works and the things they can invest in, which would not have happened if the type of industry structure we have was better thought through and the proportionality of that sort of regulation was also better thought through.

Q554 Rachel Reeves: And when you raise these issues with Commissioners and people in Brussels, are they sympathetic towards some of the concerns you have just raised?

John Barrass: Yes. I have had some very good hearings. I will give you a very quick example because I don't want to take too much time. One of the issues that has come out of the MiFID work has been that products which are not UCITS and are funds will be defined as complex from now on. That includes investment trust companies in this country, which are listed, of course, and defined under company law here. You buy and sell equity in them; you do not have a price given at the end of each day, and so on. They are deemed to be funds, because of the structure of what they are going to do, and so on; they fall under this classification, becoming complex. There is no evidence whatever.

What that means is you have to do an appropriateness test for people who want to invest in them, and it puts sand in the works. There will be firms of ours who, for example, will not want to go through the costs of actually doing that for their clients, and will withdraw investment in those funds from their portfolios. That is a silly result in a sector where there has been no problem for 90 years, or 80 years, or however long it has been going on for. That sort of thing is what you need to try and avoid, but the Commission was very favourable, and tried to work it out for me, actually.

Jiří Król: From my perspective, most of the regulatory responses in the wake of the crisis were correct and went in the right direction. Increasing the capital in the banking industry was a necessary thing. Moving towards central clearing of derivatives transactions was something we supported, because it improves the safety of markets; and there are many other examples we could talk about. There are equally things which we felt went too far. For example, on the short selling regulations we disagree with some of the outcomes; but some of

them were actually supported by the UK Government as well, so we do not feel that there would be a different outcome sometimes in the future.

Q555 Rachel Reeves: All of you have given a sort of balanced answer: there are some good things and some bad things. Overall, what do you think from the perspective of asset management—do the burdens associated with EU regulation post-crisis outweigh the benefits, or is it the other way round?

Guy Sears: I think the benefits continue to outweigh the burdens: the ability to passport, the ability to provide services, have brought benefit, and I think that still outweighs the burdens. To the extent they are burdens, at least the European Union is reviewing it. You mustn't forget the United Kingdom during that time has gone its own way and introduced its own regulation in some areas, which goes beyond that of Europe, or is tougher. Wherever we have been concerned to ensure there is appropriate consumer protection the UK has never been slow to go further than Europe.

John Barrass: I think in our retail sector it is a slightly finer cut, but I would say that the benefits outweigh the burdens. Again, I would like to make the point that the passporting arrangements benefit the consumer and the firm, there is no doubt. On the issue of costs and so on, I think the point Guy makes about the UK doing its own thing in that sort of area is an important one. Some of the legislation that has come from Europe has been developed first here, then sort of exported to Europe, so I am not sure that the costs of regulation are necessarily all European.

Jiří Król: I answer from a slightly different perspective. Because we are a global organisation we have the benefit of comparing and contrasting the impact of regulation depending on where you are in the world. In 2013, we conducted a study on the costs of compliance, which looked at all the major pieces of regulation in the EU and the United States. The results were quite similar in terms of both the perception of what are high—and very high—costs of compliance, and what are their sources, as well as some of the quantitative data we have been able to get out.

Basically, the bulk of the industry devotes between 5% and 10% of operating expenses to compliance, whether in the United States, the EU or the APAC region. It appears as if the response to the crisis has produced roughly similar effects in terms of compliance costs on our industries.

Q556 Rachel Reeves: Focusing on that, the issue of the costs of compliance, what proportion of the turnover of member firms that you represent is spent on complying with EU regulations? Do you have any idea?

Guy Sears: No.

John Barrass: There are lots of estimates of the costs of compliance, and of regulation generally. We can try to find out for you, of course, but I am not aware of a statistic that tells you the cost of EU regulation as such. As most of the regulation that is now

imposed on firms is debated and agreed at the European level and descends, as it were, into the UK, most of it is EU. I need to get you a percentage for that.

Chair: We would be grateful for that. We worked very hard to get these statistics in the previous Parliament, as well as to get an overall assessment of the cost of regulation. We did get some numbers from the fund management industry as a whole, although when disaggregated into different parts it varied hugely, as you would expect. Broadly speaking, it was around 10%, of which between a third and half was European. I'm sorry to interrupt, Rachel, but it would be extremely helpful if we could have those statistics as best you could do them on the basis of your respective industry.

Q557 Rachel Reeves: This is a bit more speculative—obviously we do not know those numbers; hopefully you will be able to get back to us with them—but if we exited the European Union, do you think that the costs of regulation, if it was done domestically, would be very different from the current costs? Would it just be done by someone else?

Guy Sears: I do not believe there would be a significant reduction in the costs of regulation. The United Kingdom has always had a very deep cadre of regulation where we are delivering services to consumers. Most of MiFID I in the consumer world reflected pre-existing United Kingdom approaches to consumer protection, so from that point of view I do not think there would be any significant reduction. There are some areas in which we have to make multiple reports, and that wouldn't occur, but I am not convinced.

John Barrass: Again, I support what Guy said. The regulation that affects our firm is fundamentally the investor-protection side, but there are also the market-facing regulations, such as transaction reporting requirements and so on. Quite a bit of it comes from the UK, and I also think we would not particularly unpick it all, by any means, if we were not in Europe. Where you might get a change would be in better targeted and structured regulation for our industry. That could lead to a rationalisation of costs in some ways, but it wouldn't be a lot and the differences would be quite marginal.

Jiří Król: I agree with my colleagues. We would not expect radical changes post-Brexit, partially because the UK has been very much supportive of what has been introduced in the EU.

Q558 Chair: I note in passing that if you have made that assessment, it is somewhat curious that you haven't moved on from that to making the assessment that we were seeking from you at the start of the hearing.

Guy Sears: I have been reflecting on that, Chairman. I apologise if I have sounded too equivocal. I think it was more that when you asked what the numbers were, I was thinking too exactly. I perhaps haven't got it across to you, so I apologise. I don't want to come away with you thinking it is completely equivocal. If there was an exit, there would be massive disruption to the way in which we currently organise our businesses.

Chair: You have made that point, thank you.

Q559 George Kerevan: Good morning, gentlemen. Let me begin this way: there is a view abroad, perpetuated by certain ignorant and sensationalist financial journalists, such as myself, that the hedge funds, or some elements in the hedge funds, find the notion of Brexit quite attractive. After all, returns for hedge funds have not been doing well in the past couple of years, but they thrive on uncertainty and market turmoil, which would clearly flow from Brexit. Some have attempted to put numbers on that: Morgan Stanley suggested that the FTSE might underperform by 20% immediately on Brexit. To put our minds at rest, Mr Król and the others, surely it is a fanciful notion that hedge funds are looking towards Brexit as a way to make money.

Jiří Król: I would definitely agree that it is a fanciful notion. First, on your remark about hedge fund returns, last year the UK hedge fund industry returned in excess of 4.5% to their investors amid falling global equity and bond markets, so we delivered on what we say we deliver on: positive returns in markets that may not be going the right way for our investors. That is tremendous value that we deliver for a number of pension funds and institutional investors who are our core constituencies.

It is very difficult and it would require an extraordinary level of prescience on the part of any asset manager in terms of understanding what the outcome and what the market implications of a Brexit are likely to be. As I have said before, we do not know yet what kind of arrangements there will be with the UK.

George Kerevan: I thought it was your job to interpret where the markets might be—and hedge.

Jiří Król: As an association, we do not look at what the markets are going to do. It is the job of all asset managers to try to understand what the markets will do; not just hedge fund managers.

George Kerevan: I am being slightly facetious, but the issue has come up.

Jiří Król: I would disagree with the fact that there is some kind of a benefit for the hedge fund industry emanating from Brexit, in particular a benefit that is associated with market movements.

Guy Sears: I don't want to underplay market turmoil in the short term, but the job of asset allocators allocating capital for savers is not one that looks to one-day volatility, or one-month, one-year volatility. We are taking very long-term views of things. Much more importantly, what will be the long-term growth of all the different components of what was the European Union, as well as global growth?

John Barrass: In the retail sector, we do not use hedge funds, or hardly. We do a little bit, but hardly at all, because the retail investor is not allowed to put money into them. There is an exemption if you are wealthier, and if in particular you go through an appropriateness test and pass it, you can do a bit, but the indices that we use—the retail indices we provide to our members—have only a small percentage of hedge fund in the balance, so they are not widely used. On the point about disruption to fund structures and so on, if we were out, there

would have to be some rebalancing of asset classes and the ways in which we invest money for individuals.

Q560 George Kerevan: I will move on to capital markets. There is normal free movement of capital within the EU, but the reality is that, for instance, the equity market funds across the EU are still half what they are in the US. SMEs find it considerably less easy to get access to capital funds as opposed to bank funds. The Commission, Lord Hill in particular, have made it a major issue now to seek capital markets union. Can I ask the three of you, assuming we stay in, what are the advantages and disadvantages to your particular sectors of industry if we actually secure capital markets union within a reasonably short period?

Guy Sears: It depends on what everyone means by capital markets union. The way I see it is that we are moving the wider political narrative from one of de-risking and looking for stability to one of growth and productivity. If the legislative environment of any country moves towards one that is supporting growth and productivity, then I think we would be enormously encouraged by that. It is also a circumstance in which, as an industry, we are highly competitive, and therefore we would expect to do well from it.

Q561 George Kerevan: So on balance, overall, there is an advantage to the UK staying in if capital union is achieved.

Guy Sears: CMU as a project, with that direction I have described, is seen as a major opportunity for our industry, because it also embraces within it a move to ever greater market-based finance and the recognition of the activities of asset allocators in generating growth and away from bank financing. Those are things that we do very well in the United Kingdom.

Q562 George Kerevan: Anything on the negative side?

Guy Sears: As it finally plays out it could be a series of just individual pieces of small change in different places.

John Barrass: We strongly support the capital markets union project, and believe that if it is properly developed it could have an effect on the jobs and growth agenda, and could revitalise some aspects of the European economy. I want to make a couple of differentiations here. The UK is quite different from most other countries in the EU, perhaps excluding Ireland, in that we have a much bigger capital market arrangement than they do in terms of the way that it funds the economy as a whole. We are very much more like the United States in that respect. The amount of equity in the economy to finance companies is much greater, and the proportion of bank lending is proportionately lower, and so on.

There are some horrendous statistics. On the retail side, if we look at these deposits, in the United States I think that the figure is that about 15% of retail assets are held in bank deposits, while in the EU as a whole it is 42%. Here it is a lot lower than that and more like that American figure, although we still have quite a bit in bank deposits.

Obviously that is money that needs to be used better. I was at a Treasury meeting not very long ago where somebody asked how on earth we could intermediate in order to get those deposits into invested potential and make use of them properly. That is one of the problems. I have already spoken about the difference in structure, and the intermediation arrangements for the retail side are not available in some European countries. They are very poor, quite honestly. You do not have firms like ours. You might have some independent financial advisers and you have bank branches, but they all depend on people actually being encouraged to go and take money out of their bank deposits and invest them in they don't know what. They do not get proper advice.

These are issues for the European Union as a whole. In that context CMU, which affects the whole of the European Union, will have to deal with those kinds of issues. We have been to the European Commission several times to talk about this, and we suggested looking at, for example, the UK model of trying to intermediate in order to get bank deposits better used in terms of investment processes and so on. I think that there are a number of people in the UK who would not at all mind exporting our model more. However, you have to be limited in your ambition here. This is because, first, there is a question about whether the firms want to do this and, secondly, bank lending is of course set in its ways in many countries. You are not going to change the way that Liechtenstein finances itself in Germany just by saying that we are going to do more capital markets stuff. So you have got to be a bit careful here.

On the work that the Commission is doing, we very strongly support the section of their CMU action plan that proposes a review of the retail markets, particularly in distribution and advice throughout the EU, and we will be making a contribution to that. It is due to report in 2018, and it is quite long. That could have a similar effect on the way that the retail markets work over the EU as a whole.

Q563 George Kerevan: If capital union was successful and did open up Europe to retail products, would the balance of probability not mean that UK firms would be in a good position to capture that?

John Barrass: Yes, absolutely, they would be. For example, we toyed with the idea of looking at the ISA structure for equities and seeing whether that could be transformed into the European ISA. The reason for that is because the infrastructure for trading equities across Europe is in place. When they have made UCITS they have had to build the infrastructure to allow the legal framework for users to do that. It has taken 25 years but we have got it for equity, so why don't we make equity-based products that are actually for retail that can be exported across the piece? One of the objections was that we cannot get an agreement on solvency law across the EU, and until you have got that you cannot actually do equity-based products which would be exported in their own right. They have got a pension product, which they are looking at to try to make a universal European pension product which would be similar to a self-invested personal pension—SIPP. It would be much more simplified. Essentially you invest in funds and you can do it wherever you are. We will have to see whether that would actually be another product to add to the UCITS, which is really the only pan-European product.

Q564 George Kerevan: You see where I am going. Is the balance of advantage in securing a full capital markets union better achieved by Britain staying in or by coming out?

John Barrass: It would be better achieved by Britain staying in, because the influence that we have if we are in will be much greater. The views which I am now putting to the Committee are those that I have expressed in different ways to the Commission over several months, starting when the CMU thing came out but especially in the period since the action plan came out in September. We will carry on doing that. That shows that you can get some influence and begin to make people think again about how they are going to do things. We would not have the input either into the review of the retail markets in Europe which they are conducting if we were outside, and that is going to be quite significant.

George Kerevan: Mr Król? Capital markets union?

Jiří Król: We believe that whether the economy is financed from capital markets or the banking side matters a lot for economic growth. We have conducted a fairly rigorous study on that and it shows that growing your capital markets, in size as well as liquidity, has a positive effect on growth. The causality is quite simple. What happens is that when you finance yourselves as companies from the capital market you have more transparency. Greater rigour and discipline imposed on companies induces them to run themselves better and contribute to better allocation of resources. So there is a clear link between growing your capital markets, and providing a greater mix of financing from those markets, and economic growth. Therefore, we support the CMU project, because, as hedge funds, we play a very important role in capital markets as providers of liquidity, but also as direct financiers of those companies, whether it is on the equity side or on the debt side. So, yes, we believe that it has the potential to deliver huge benefits to Europe and the UK.

Q565 George Kerevan: Finally, is that better achieved staying in or coming out?

Jiří Król: Well, CMU is a European project. If it is going to be a multi-year project, we do not think of it as a single-Commission mandate, we believe it should be a project for the foreseeable future.

Q566 George Kerevan: Indeed, but in the event of a Brexit, because of the dominance of the banking model in Europe, would it not therefore be more likely that the banks would win out and delay and slow the process of a capital union within the eurozone?

Jiří Król: I think the UK would benefit from the accomplishment of the capital markets union if it were to stay in.

Chair: Three more colleagues want to come in. We also have Treasury questions today, and there is a great deal of interest, I can tell, from colleagues about the answers we are getting, so I ask witnesses, if you can manage it, to be brief and succinct and to supplement evidence, if necessary, with written material. It would be extremely helpful to us.

Q567 Mr Rees-Mogg: Thank you, Chairman. I draw attention to my declaration of interests. I am chairman of an asset management company which invests in emerging markets; so, fortunately, mainly out of Europe. To come back to some of the compliance costs, Mr Król, the AIFMD was estimated to have cost £1.5 billion by the Government's estimate of the regulatory impact cost, and \$300,000 of extra regulatory cost per firm. Do you think this has been proportionate for your members, particularly the smaller alternative investment managers?

Jiří Król: First, the AIFMD does not only cover the hedge fund industry.

Mr Rees-Mogg: No; I notice that it covers Somerset Capital Management.

Jiří Król: So the cost of £1.5 billion would not be borne solely by the hedge fund industry. Secondly, I would say that the impact on smaller firms has been larger than the impact on larger firms. Our research suggests that they spend, or have spent, more on compliance in relative terms than their larger peers, so the costs in many areas would be higher than we would have liked, but at the same time we feel that the regulation ended up being in a place which is much better than the initial proposals and is capable of being complied with, to the extent that when you look at the UK industry post-AIFMD, it has grown by 20%, we still have a vibrant industry where 80% of our members who are still in business are small companies with fewer than 20 employees.

Q568 Mr Rees-Mogg: Saying that it is better than where it started is not a very ringing endorsement of the AIFMD, is it? You are basically saying that it could have been worse, rather than that it was actively helpful.

Jiří Król: Well, the initial proposal was not the best of proposals that have come out of the European Commission.

Q569 Mr Rees-Mogg: It was chaotic, wasn't it?

Jiří Król: The proposal was conceived in haste and it did not benefit from the same level of consultation as we would experience normally, but there were rigorous debates in the Council and the Parliament and it was improved greatly, as is any proposal that comes out of the European Commission.

Q570 Mr Rees-Mogg: Mr Barrass, may I also ask you about the costs of compliance for smaller companies? You mentioned two-partner firms. Is it particularly onerous for them to comply?

John Barrass: The ratio of costs and regulation changes as you go down the scale of the size of firms. The tendency is that the smaller the firm, the bigger the ratio of cost.

Q571 Mr Rees-Mogg: And are two-member firms the ones that least benefit from the advantages of passporting and so on, because they are the least likely to be using it?

John Barrass: That depends very much where their clients are. If the clients are fundamentally in the UK, there will not be a benefit. If they retire to, say, the south of France, there can be a benefit.

Q572 Mr Rees-Mogg: But typically, the smaller firms would be domestic, rather than—

John Barrass: Typically domestic, yes.

Q573 Mr Rees-Mogg: So you have a situation where the smaller firms are bearing a higher percentage cost and get fewer of the benefits.

John Barrass: Yes, that is probably true in the sense that—it is true in any sense at all, because if you have regulation from the domestic side or from Europe, you will have an issue about smaller firms. As far as the benefits of the EU are concerned, the passporting benefits and benefits of the product range and so on are not so great for small businesses.

Q574 Mr Rees-Mogg: The British Private Equity and Venture Capital Association wrote that passporting has been rendered “much less useful” than envisaged owing to different implementation of rules in different EU member states. Do you think that that is broadly true?

John Barrass: First, on passporting, I want to make clear that the benefit applies more at the upper end of the scale for us. Where that applies, I think you will find that the implementation issue becomes one because you need what we would regard as arcane elements left over in the national legislation of the countries—registrations of particular types and that kind of thing, where you suddenly have to do little things that you didn’t realise you had to do in order to get that passport to operate. That is not because they are doing anything against EU law; it is because they are allowed to do a collection of bits and so on, in the way that we do, for example. That is the equivalence arrangement.

Q575 Mr Rees-Mogg: Mr Król, I find in my own business that it has been much easier to have clients come to us from outside the European Union—the United States and Australia, for example—than inside the European Union. How true do you think that would be for hedge fund managers?

Jiří Król: It depends on whether you run a European-domiciled fund or a non-European fund. At the moment, it is—

Q576 Mr Rees-Mogg: Sorry to interrupt, but as a business we develop the funds that our clients want. If a client wants a US-domiciled fund, that is what we provide. I would have thought that that was true of most alternative investment managers.

Jiří Król: Usually the domicile depends very largely on the preference of the investors, as you correctly point out. The passporting under the AIFMD for funds that are not located in the EU but managed by UK managers is to enter into force. It has still not been implemented. As of today, you do not have the full benefit of the passport that is meant to be introduced in the coming years, but if you run a European fund, you have the full benefit of the passport.

Q577 Mr Rees-Mogg: You mentioned the benefits of UCITS in an earlier piece of evidence, which I want to follow up on. At one point, I was involved in setting up a Dublin-based UCITS when I was working in Hong Kong that was being sold by a South Korean broker. Is this not available wherever you are? Is it not the case that the UK being in the EU does not actually make much difference to the launch of UCITS in Dublin by a UK-based firm? Lots of UK firms use Dublin as the base for their UCITS because it is a cheap and efficient jurisdiction; they don't use the UK because it is more expensive.

Jiří Król: This goes to a general issue about the UK in the EU. The UK is probably the most important advocate of open Europe when it comes to financial services regulation. The ability to, for example, run UCITS funds from outside the EU is largely dependent on the advocacy that has gone into that ability. One has to be mindful of that. We do not know whether that would be able to continue after the UK left the EU.

The discussion around third-country access has been one of the most contentious ones in financial services regulation. It is quite a dynamic aspect of Brexit that has to be borne in mind. You will not necessarily have that same open door, which was really kept open by the UK presence in the EU.

Q578 Mr Rees-Mogg: So you think that there might be a Fortress Europe if the UK left?

Jiří Król: There is a danger that financial services regulation becomes less open and more exacting in terms of, for example, requiring presence within the EU if you wanted to do something such as run a UCITS fund from Switzerland or elsewhere. It is very likely that you would encounter higher costs for being able to continue to operate the UCITS funds that you do today.

Q579 Mr Rees-Mogg: Mr Sears, I wanted to pick up on your massive disruption question. As a long-only investment manager, I do not see that it would make any difference to the structure of my business, because all the regulations would remain the regulations until they were changed. Where does the disruption come from? Not market turbulence, which is a different question—there is always volatility in markets, and people may buy or sell shares depending on the opportunity that they see, to come to Mr Kerevan's point about hedge-fund managers rubbing their hands with glee to cause a bit of disruption—but on what it would actually do to how businesses were running the day after we voted to leave.

Guy Sears: I accept that there will be a range of experiences, but the reason why we think that very significant changes will have to be made comes down to the fact that the pre-eminence of the United Kingdom is in providing asset-management services, rather than, as such, manufacturing the UCITS product. We are fifth in Europe in terms of domicile for UCITS funds; we are No. 1 by miles for the provision of asset-management services, including from your firm.

That provision of asset-management services can occur freely and easily within the European Union, because any of the fund structures can delegate their management to the UK as a member of the EU, because its managers are regulated in the EU and they are subject to the EU's requirements. If we left, then there would still be a need, as I mentioned before, for equivalence under the existing European legislation and therefore the United Kingdom would have to keep in place all of the legislation that we have, or replicate it where we do not yet have it, because it is a direct effect from the European Union. Therefore, there will be a legislative procedure, no doubt, to introduce all of Europe's regulations where we do not presently have domestic law—whether on market abuse, the OTC clearing or some of the other European regulations.

Q580 Mr Rees-Mogg: All our law operates as domestic law. It becomes domestic law under the European Communities Act 1972, and therefore even though it originates in the EU it is enforceable in this country as domestic law. I think that is crucially important. All the laws would remain until they were changed—they are British domestic law, because of the way in which they are implemented under the 1972 Act. That should give you some comfort that there would be no disruption to regulations in the short term. We may then decide to change them, but that is different. I just wanted to get away from this massive disruption, because that is a misunderstanding of how EU law operates in this country.

Guy Sears: I bow to your view of the '72 Act and the fact that, as an example, a range of regulations that exist and came into force when we were treaty signatories will remain in force when we leave. It is nevertheless the case that there will be client arrangements and arrangements with the funds that are being run from the UK but domiciled elsewhere, all of which reflect the fact that we are members of the European Union, all of which will have to be reviewed and looked at again. The funds that are domiciled here as UCITS—95% of the authorised funds in the UK are UCITS—will cease to be UCITS overnight. That is not to say that the legislation applying to them will not be the same, but they will not be UCITS and they will not therefore be able to be offered for sale across the European Union. Also, management companies of European funds are required to be in the EEA under existing legislation, and therefore you would have to review whether you could keep management companies in the UK looking after funds abroad.

Q581 Mr Rees-Mogg: But the sub-delegation of management is very common practice across all jurisdictions. People run US funds from Singapore without any difficulty as a sub-adviser to the formal manager, and that is quite common with UCITS as well. I have been involved in setting up a Dublin-based UCIT from Hong Kong, and the nominal manager delegated the responsibility to a sub-adviser. It is not complicated or uncommon in investment management.

Guy Sears: I am not saying that it is not done. Of course it is done, and I accept your experience on it, but it is the case that the legislation over the past four or five years has increasingly required a stricter level of equivalence with European law if you are to delegate in that way. The requirements over extending the delegation into risk management and remuneration practices, even among the Hong Kong firms, are a characteristic of recent European legislation. I am not saying that it cannot be done, but when you do it, you will still be subject to the obligations imposed by the EU.

Q582 Mr Rees-Mogg: Thank you for that. I feel the Chairman's eyes boring into me, but I want to ask one more question. The EU has got to the 10 members—it only needs nine—needed to agree enhanced co-operation for a financial transaction tax. If the United Kingdom remains in the European Union, we have to collect the tax and pass it to the European Union on transactions that are covered by that enhanced co-operation, which are those involving an asset issued by or an activity by a company or individual in one of the 10 member states going ahead. If we are not inside the European Union, we will have no legal obligation to collect that tax. What effect do you think a financial transaction tax will have? For Mr Sears, it will be £1.2 trillion of your members' assets; for Mr Król, I should think it will be a significant amount of the assets your members deal in; and for Mr Barrass, I do not know. What would your members feel about the financial transaction tax?

Chair: Would you be prepared to write to us with that considered conclusion? I hope that you would settle for that, Jacob.

Mr Rees-Mogg: Yes, because I think it is very important.

Chair: I think it is a very important question, but I doubt that the witnesses will have come armed with the answer, and I think we will need it as part of the inquiry. Two more colleagues want to get in, and we do have Treasury questions. Colleagues will want a few moments before that starts.

Q583 Wes Streeting: Earlier in the hearing, you seemed to get a hard time from some of my colleagues around contingency planning. I have some sympathy for you, because the Government said clearly that they are not doing any contingency planning, which I think sends a terrible signal. Do you think that having a clear sense of direction from the Government on the course that they would pursue in the event of Brexit would enable you to plan better for that eventuality?

John Barrass: Can I try to understand the question a bit better? You talked about a clear steer from the Government.

Q584 Wes Streeting: Let us imagine for a moment that people have voted to leave the European Union. David Cameron walks out of No. 10 the next morning, perhaps permanently. Let us imagine that he is coming out to tell us what steps his Government will be taking as a result of that Brexit vote. At the moment, the Government tell us that there is no contingency planning taking place for that eventuality. Do you think it would be helpful

prior to the referendum for you to have a clear understanding of what the Prime Minister would say in that statement outside Downing Street the following morning?

John Barrass: In terms of the contingency planning that businesses have to do for what might happen were we to leave the EU, it would help to know the framework in which they were doing it. Inevitably, certainty is created by Government statements about how they will act in the future. That is the case in general, and it is the case here.

Q585 Wes Streeting: Does anyone else have any other comments?

Guy Sears: If I had the freedom, it would depend on the nature of the businesses, but if I was running a business and had the freedom, I am not sure that I would wait to see whether or not we turn out to be an EFTA member or an EE member or a member of something else. You would structure on the basis that we were out and work out how to place vehicles within the European Union to continue to serve that market. Some will remain, of course, because some are very domestic, so the impact will be more on economic and market issues, rather than on what you do domestically.

Q586 Wes Streeting: Okay. Following on from the previous line of questioning, in the event of Brexit, what protection remains for an EU holder of a UK-registered UCITS fund?

Guy Sears: The core protections come about by the very structure of the fund and the legal requirements around it, and not all of those derive from regulatory issues—in fact they are probably a minority. So operating with and taking the services of a UK-authorized asset manager will remain a very high badge of oversight and quality. The FCA is not a light regulator that sits back, and certainly its agenda and the strength with which it regulates is not set by the European Union.

In terms of the separation and segregation of assets, they would remain protected under the structures we use. So on day one I do not think there is any cause for concern, unless for some reason that European citizen or institution was required to hold a UCITS and there was either some cap in the requirement or a local regulatory requirement to hold UCITS rather than an alternative investment fund.

Jiří Król: From experience, the UCITS form is extremely popular among institutional investors, and that is one of the reasons why our members have taken it up. So it is something to be considered, because either by preference or sometimes by regulation they are required to hold that particular form of product.

Q587 Wes Streeting: Turning to the issue of passports, will each of you briefly outline what proportion of your business is dependent on a passport?

Guy Sears: I am happy to drop a line on the cut of the percentage and suchlike, but the ability to manage over a trillion of Europe's money derives from the fact that we can operate a passport and access it from the United Kingdom.

John Barrass: Again, if you don't mind, I will get a written answer prepared on this in terms of actual statistics, but it will not be a huge proportion.

Jiří Król: As I said before, roughly 30% of UK hedge fund assets are in the UCITS format, so that is the minimum and then there are the AIFMD funds that would be passported. So it will be between 30% and 40% at the moment, but it is likely to increase.

Q588 Wes Streeting: For those of you who are more reliant on the passport, were we to lose passporting rights, would you relocate or abandon that aspect of your business entirely?

John Barrass: I do not think in our case you would get a direct reaction. I think a lot would depend on what would happen to the retail clients living in other EU member states who are British and use British firms to manage their assets or provide advice and so on. There would be an issue there about whether they are going to be grandfathered in or allowed to stay and so on.

The passporting issue would alter it, because presumably the firm would not be allowed to access those clients any more without registering or in some way being authorised by the local regulator, say, in France. That could be an additional cost that the firm would want to comply with. There may be issues about withdrawing from that business over time, but it would be a question of those clients initially.

Guy Sears: I do not know, but from experience I would say that what happens at moments like that, in order to ensure the UK's competitiveness and access to markets continues, is not so much that people move but the question of where you next invest, where you next expand and whether, in your next expansion, you use the Frankfurt office or you open an office in Frankfurt rather than move wholesale. We are an industry that depends on intellectual capital and, therefore, to a great extent it is about people, and those people are living in London and Edinburgh and based here.

I do not think that the—whatever it is—25,000 directly or the 86,000 in total directly and indirectly employed in our industry will go abroad overnight. The question will be where you next invest and where you next expand; should it be in London, in Edinburgh or in Frankfurt?

Q589 Wes Streeting: In that context, would you anticipate a slowing of your investment or activity in the UK as a result of a Brexit decision?

Guy Sears: Depending on the barriers that are raised by Europe and how the negotiation goes, there will be some circumstances in which the economics of being based in Europe, ex-UK, will be better than being in the UK and dealing with all the barriers. It will depend on what the barriers are.

Q590 Wes Streeting: That brings me neatly on to my next question. One clear school of thought is that, on leaving the EU, we would still have to abide by all EU financial services

legislation, both now and in the future, if we want to retain access to the European financial markets. Do you share that view, or do you imagine that we can get a better relationship, in the context of having upset all of our European partners by leaving?

Guy Sears: Europe has discovered this equivalence idea, which was really developed for our engagement with the United States, and I see no reason why it would not be applied to the United Kingdom. It has applied to the US for the engagement in trade between us and them in financial services, so from that point of view I don't think it is about emotional reactions or anything like that. Equivalence is the way in which the European Union as a market engages with other markets, and we would become another market.

Q591 Wes Streeting: So you would anticipate a relationship that looks more like that of the US, rather than Norway or Switzerland. What evidence have you got to justify that view?

Guy Sears: Sorry, I wasn't drawing a distinction with Norway and Switzerland. Switzerland is also subjected to equivalence requirements; it is just that the United States is obviously far bigger. We have seen it being debated in detail when we look at how we arrange our derivative markets, clearing and suchlike together. I wasn't drawing a distinction.

Q592 Wes Streeting: My question was more about our adherence to financial regulation upon Brexit. My personal concern is that, for all the noise we hear about sovereignty, it is actually mythical, because if we leave the European Union we will still be subject to the financial regulation, which is among the things that people complain about, and which we are subject to by virtue of being a member of the European Union. Do you anticipate that a Brexit vote will lead to greater freedom? Will it, as some people have put it, set the City free?

John Barrass: The point that Guy makes about equivalence has to be taken into account. Although we would then have control over our own financial regulation, in the sense that we would make it here, presumably not being in the EU would mean that we would no longer have MEPs, and there wouldn't therefore be a relationship with the key legislative institution in Brussels or the European Commission. It would mean that we would be negotiating EU law. We would simply have to look at it and decide how we deal with it here. Our Parliament would regain a degree of sovereignty in that area and we would do it ourselves, but we would need to work out what we want to do with it to ensure that those markets are still available.

I want to say one thing on this. London is quite interesting in the wealth management sector, because it is becoming a global centre for wealth management. It is attracting firms that are coming here quietly from elsewhere without saying terribly much in order to set up their operations here. I spoke to one of those firms, which had moved out of Luxembourg to come to London. We asked them about what they were going to do. We asked about clients, and they said, "We aren't interested in UK clients at all. We're coming to London because we have an international client base and this is where they come to do business. They don't go to Luxembourg, so we don't meet them properly." That kind of approach to certain aspects of the management of the client base that our industry needs would go on in any case. The

global centre that London is, with all the infrastructure that allows that to happen in the different sectors of our industry, would be unaffected. The regulation issue would be to make regulation that would encourage that thing to continue. If that meant making regulation that means we get European clients, I think that would happen.

Guy Sears: To come back to the point about setting us free, obviously technically there is the opportunity for greater freedom, in one sense, and there is the global stuff. It isn't the case that the FCA is hidebound and is not doing anything in any event. We have the RDR, and we have a stronger view on inducements in the United Kingdom than Europe does. We were dealing with and discussing bank separation and Vickers long before others were. We rightly introduced resolution of our banks and the CCPs in the United Kingdom rapidly and earlier than Europe did. Although I accept that the legislation comes predominantly from Europe in our area—we sometimes say 80% to 85% of non-tax legislation—the United Kingdom has ensured that where it has needed to intervene and protect people or improve financial stability, we have done that in any event.

Q593 Chris Philp: I would like a little more clarity on the line of questioning that Wes Streeting was pursuing. Mr Barrass, your organisation has previously condemned EU regulation as being “poorly targeted” and “excessive”, and said that it “reduces both growth and competitiveness”. Balancing that with the points we have just been discussing, do you think our competitive environment would be better or worse were we to leave the European Union?

John Barrass: First, I would endorse the points that Guy has made about the number of bits of regulation that we have undertaken that have then become European regulation, or that have been followed in Europe. I said earlier that we are exporting ideas to Europe a lot, and that gives some examples of the export process. However, you are talking about having regulation that is organised by ourselves for our own market. In that sense, regulation would become much better targeted. It would be organised around the structures we have here, and we would do away with some of the issues arising from having to deal with a lot of other states where the structures are different, and you would get a more competitive kind of regulation as a result.

Q594 Chris Philp: That answer may be because your members tend to be rather more UK-focused. Mr Sears, your members are much more international. Taking all the issues we have been discussing in the past 20 minutes in the round, do you think that for your members the competitive and regulatory environment would be more or less congenial inside or outside the European Union?

Guy Sears: As I said, our membership of the European Union has brought significant benefits to the industry in the UK. We have optimised our activities around working in and exploiting the single market and the opportunities it gives. That's been where we are. How it turns out afterwards is speculation.

Q595 Chris Philp: You mentioned earlier that your members manage from London £1.2 trillion sterling in European Union assets.

Guy Sears: That is our European clients. Our exposure into EU equities is about 23% of our exposure.

Q596 Chris Philp: That is £1.2 trillion of money invested by EU institutions with your members in London. Were we to leave, are you concerned that that £1.2 trillion sterling might be redeemed and repatriated, or are you confident that some way would be found to make sure we could still manage it from London?

Guy Sears: As one of your colleagues has pointed out, there are examples of where we are running money all over the world, but I definitely think it would put us at a disadvantage the next time those mandates are awarded to run money. People will see the United Kingdom as being part of how they look to, say, US and perhaps Asian advisers, rather than just seeing it as part of the natural usage of an EU manager.

Q597 Chris Philp: You may have mentioned this at the beginning, but I think you had £5.5 trillion sterling in total. How much of that is non-EU and non-UK?

Guy Sears: About £1 trillion.

Q598 Chris Philp: So despite the fact that we clearly don't have these single market arrangements with the non-EU countries, you have still managed to raise almost as much capital from outside the EU as from inside it, which suggests it is possible to raise capital and manage it even if you're not a member of the European Union or don't have those arrangements.

Guy Sears: Yes, we are globally successful. That is part of London and Edinburgh having such a huge talent pool.

Q599 Chris Philp: So we can do it, even without access to a single market.

Mr Król, on the question of raising capital from outside the EU in general, would you say that the European Union's attitude to its relations with non-EU countries helps or hinders raising capital from outside the European Union?

Jiří Król: The regulation that has been passed has become more open throughout the negotiation process, allowing for assets to be raised throughout the world. It really isn't the European regulation, such as the AIFMD, that will be the hindering force for UK managers to raise assets in the United States. Once you start to enter a different market, it is the local regulations that you have to contend with. AIFMD is not going to be a hindrance unless there is some really direct conflict of law between, for example, it and the US SEC rules.

Q600 Chris Philp: I understand that, but if, for example, the domestic regulations in the US are the key factor, what is important is whether the European Union on our behalf negotiates those to be favourable to us or not. Part of the point of TTIP, which I know does not apply to financial services, is to try and get other countries outside the EU to reduce the regulation on EU countries, in exchange, no doubt, for us doing the same for them.

Do you think the European Union has done enough, for example, to persuade the SEC to lighten the regulatory burden on EU managers raising capital from the US? Could we do more on our own? Could we, for example, persuade the American Government to improve the regulatory environment for UK investment managers if we were doing that on our own, rather than with the European Union?

Jiří Król: The EU and the US have a very structured dialogue on regulatory issues that attempts to ensure that the regulation is globally consistent and works out for the industry as a whole. It is our job as an industry to try to ensure the same, and we have worked very hard with our US colleagues to ensure that it is possible for European firms to be managing the assets of US investors without that creating some kind of regulatory impossibility. By and large, we feel that we have achieved that, but you still have a level of duplication of regulation, registration requirements and reporting requirements that cannot be avoided at this time. We would like further harmonisation of that globally.

Q601 Chris Philp: Are you satisfied with the job that the European Union has done in negotiating with the US Government on our behalf?

Jiří Król: I am not certain that it is the job of the EU, on particular pieces of EU regulation, to argue for how the US regulations touch on it.

Chris Philp: It is a trade matter, not an EU regulation matter, and they do negotiate trade on our behalf.

Jiří Król: With the US, it is generally investor protection matters, and if you want to raise assets from US investors, you have to register with the SEC or the CFTC and provide certain levels of disclosures that are relevant to all asset managers, whether they are in the United States or outside it. It is a process that the industry has been involved in. I am not necessarily certain that the primary purpose of the EU is to be negotiating with the United States on every single piece of their legislation, but there is that structured dialogue and an attempt to ensure that the rules are actually working out.

Q602 Chris Philp: Before I move away from this area, do Mr Sears or Mr Barrass want to add any comments?

Guy Sears: Mr Philp, you have touched on a very important point that splits people, which is whether people see Europe as a destination or a departure point. There are those who see Europe just as a place to do business in, which is one thing, but if you see Europe as being a very large negotiating body that can reach agreements with other bodies, and particularly negotiate on an equivalent basis with the United States, you have a different view on it. So there are matters that need to be clarified about the way in which our central clearing

operates between us and the US. It is certainly convenient that there is a single negotiating body, the EU, that will no doubt reach agreement with the US on how we can align our two regimes better.

Q603 Chris Philp: Finally, I would like to ask about immigration. Do you or your members find that the free movement of workers in the EU is a helpful facility?

Guy Sears: We think that maybe from one in 10 to 13% of people employed in our industry are ex-UK. Not all will be EU citizens. I think my narrow sectoral point on it is that as London and Edinburgh are centres of excellence that attract international talent—whether those are new graduates or senior management rotating around the globe as they go up—it is very important that we remain open to allowing those people to come in, do business here and move on as part of their careers.

John Barrass: And I think—

Chair: Fire away with your quick reply. We are going to run short of time.

John Barrass: A percentage of people who are working for our firms come from within the EU. They are welcome, because they are skilled and they are people who are needed—otherwise, they wouldn't work there. I don't think people see this as an issue in our industry.

Q604 Chris Philp: A final question for Mr Król. If by withdrawing from the European Union we did not have to simply accept every EU immigrant, we could be more selective about who we let in, from both Europe and elsewhere. It may be that we could then accept more high-quality immigrants from non-EU countries and still lower the overall rate of immigration. Would that be an attractive prospect to your members, who may currently experience difficulty in bringing over non-EU highly skilled people because of the limits?

Jiří Król: We have not heard from our members any concerns arising from the UK's membership of the EU in terms of being able to access talent globally.

Q605 Chair: Okay, but you have heard from your members about the difficulty of getting people from outside the EU into the UK under the new visa arrangements, haven't you? You've been on to me about it—not you personally, but members of your industry.

John Barrass: That is true. The businesses want to be able to access the widest possible labour pool. Where there are restrictions on that, they will probably have problems and they will say so.

Q606 Chair: And these new restrictions are posing problems. How big those problems are is a matter for debate, but they are certainly posing problems right across the financial sector. That's what I am picking up. Say no if it is incorrect.

Guy Sears: There are always concerns if there are barriers that you have to go through to move talent into this country. The thing that I am resisting is that there's some play-off between that and immigration policy. Yes, especially for the smaller firms, it would be very convenient if there were easier visa arrangements.

Chair: Okay. This is a straw man that you have put up. I was not suggesting that, Mr Sears.

Mark Garnier has an extremely quick question, then we want a very quick reply.

Q607 Mark Garnier: Mr Sears and Mr Król, you've both mentioned that UCITS funds in the UK may be lost as a result of people who own UCITS no longer being able to own them because they will no longer be UCITS funds. What is the value of these funds that could no longer be UCITS funds and could be under risk were we to come out of Europe?

Guy Sears: I don't think it will be large. I think the much more significant impact is on our wider provision of management services from the UK.

Jiří Król: For us, most of the UCITS funds that we manage from the UK are actually established in either Luxembourg or Dublin, so you would probably have to restructure, because you could no longer have a UK management company running those funds. You would have to have an EU management company, which would be a restructuring cost.

John Barrass: About 10% of the portfolio amounts of our member firms are EU UCITS, so there would be some effect on retail investors if they could not do that in some sort of way. UCITS are an important component in that sense.

Mark Garnier: So basically, small, resolvable, and about 10%.

Q608 Mr Rees-Mogg: But most of those will be British.

John Barrass: I think that's right. I think one of the problems that the Commission faces is that there is so little retail cross-border investment.

Q609 Mr Rees-Mogg: Yes, but it will make no difference to that.

John Barrass: There is retail investment in UCITS, but not much cross-border investment.

Mr Rees-Mogg: Thank you.

Mark Garnier: Very helpful.

Chair: Thank you for giving evidence today. You started by, if I may say so, circling the issues, but we got on to some red meat later on. We are very grateful to you. If you would come back to us with further written evidence in the areas that we have mentioned, we would

be very grateful. If you have other things that you want to say that you have not had the opportunity to say today, or if you want to amend or qualify what you have said, please come back to us with written evidence. We will be grateful to receive it. Thank you very much.