



Treasury Committee

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

Tuesday 1 March 2016

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

Questions 693 - 841

Examination of Witness

Witness: **Lord Hill**, European Commissioner for Financial Stability, Financial Services and Capital Markets Union, gave evidence.

Q693 Chair: Thank you very much for coming to give evidence to us this morning. It is particularly helpful that we will be able to talk in English. Your predecessor who came to give evidence spoke quite fluent English but insisted on giving evidence in French, which did rather slow things up.

Lord Hill: I will stick to English.

Q694 Chair: Stick to English unless you feel the need to say something particularly recondite. Can I begin by asking you about Union powers in the field of financial stability, which is, after all, quite near the heart of your portfolio of responsibilities? What are the existing powers of the Union in the treaty with respect to financial stability?

Lord Hill: You are absolutely right that financial stability is a central part of what I do. It is the first part of my very long job title. In terms of the powers, we have the ESRB, which was put in place after the crisis as a way of trying to get more co-ordination between central bank governors and member states over broad financial stability issues. Within the eurozone there is obviously a responsibility that the ECB has for financial stability. As you have seen in the recent settlement between the UK and the EU, there are specific safeguards put in for financial stability purposes for the United Kingdom and other non-eurozone countries.

Q695 Chair: Where in any of the existing treaties is the responsibility for financial stability spelt out for the Union?

Lord Hill: I am not sure I can point right now to the specific place in the treaty where you would find that.

Q696 Chair: I am advised that there is not a legal basis, and that is really why I am asking this question. I note that in this agreement that has just been agreed only a few weeks ago, it says that while financial stability is “a matter for their own authorities”—that is the authority of member states—that responsibility that lies with member states should be without prejudice to the existing powers of the Union “to take action that is necessary to respond to threats to financial stability”. That looks like competence creep to me. It looks like an extension of responsibility taking place under the guise of something that is reinforcing protection for the UK. What response do you have to give to that?

Lord Hill: In terms, for instance, of the systems that were put in place as part of banking union, which needed to be put in place in response to the crisis—

Q697 Chair: That is the banking union; that is not a Union power. Indeed, it is very explicitly carved out as not a Union power.

Lord Hill: I do not see that as an example of competence creep. What I think the agreement does is make clear that for responsibility for financial stability—

Q698 Chair: What does this sentence mean? What does “without prejudice to the existing powers of the Union” mean? What is that a reference to?

Lord Hill: I am afraid that, without having that text, I am not able to give you a very satisfactory answer.

Q699 Chair: You have had a good look at this text, have you not, because it is so crucial to your job?

Lord Hill: I have had a good look at the agreement text, yes; of course I have.

Q700 Chair: This is pretty crucial. If you do not mind my saying so, I am a bit concerned that you are not completely up to speed with what the scope and limits of what appears to be an extension of Union powers in the field of financial stability is as a consequence of that language that is now going to be, in treaty form, lodged with the UN and subsequently embodied in Union treaties. Is there anything you want to add on that before I move on to something else?

Lord Hill: No, you have covered the point. In terms of the—

Q701 Chair: So we should be concerned. We should be very concerned indeed, it seems to me, that this agreement, from a British perspective, appears to have protection followed swiftly by what its detractors could easily describe as a Trojan horse of competence creep.

Lord Hill: No, the agreement gives the UK the reassurance that it wanted that there cannot be any intervention in the financial stability powers that the Bank of England has

and that is set out very clearly for the first time. That is one of the consequences of this agreement, in terms of trying to have a better understanding between eurozone and non-eurozone countries to overcome some of the problems of a lack of trust that there has been in the past, and to preserve the interests of the non-eurozone countries, the UK in particular, both in terms of discrimination against it on the basis of currency, but also to make clear that the Bank of England has its responsibility for financial stability protected.

Q702 Chair: Perhaps you will take a look and reply to me and the Committee in writing. The key question is whether you agree with the general consensus of certainly the lawyers that I have spoken to on this that the current competencies of the EU do not extend to financial stability under the existing treaties.

Lord Hill: I would be happy to follow that up.

Q703 Chair: As part 2 of your letter, could you explain what it is exactly that the reference to existing powers means? Because if there is not a treaty base, then the existing powers are zero.

Lord Hill: I am happy to do that.

Q704 Chair: Can I move onto another thorny problem, which is the bonus cap? Do you agree that bonus caps create mis-incentives in banking?

Lord Hill: My view would be the same as the Commission's original view on what you do about trying to align incentives with sensible long-term behaviour. The original Commission proposal, as you all know better than me, had measures in there to do with clawback and deferred payment. As it went through the political process, that was amended by member states and by the European Parliament. The political process was what changed the original Commission proposal.

Q705 Chair: The question I am asking is whether you agree that a bonus cap creates misaligned incentives in banking.

Lord Hill: As always, it depends how things work. My approach, if I had been there, would have been the same as my predecessor's was. That was an approach that has deferred payments and clawback, so that you can do it over time, without having a cap. That is what I would have been arguing for.

Q706 Chair: Is that a yes or a no?

Lord Hill: I would have at the time been arguing for there not to be a cap, I am sure, which is what the Commission did.

Q707 Chair: Why?

Lord Hill: Because approaching it with a point of view of deferred payments and having ways of clawback is a sensible way to try to address the underlying problem. People would accept you have to try to find a way of addressing it.

Q708 Chair: So you agree that it can generate misaligned incentives in banking and that that is part of the reason that you would have opposed it had you been in post at the time?

Lord Hill: Whether it can generate misaligned incentives or whether it leads to more inflexible approaches one can debate. It is important, and one of the things—

Q709 Chair: Let us debate that right now. I do not understand the difference between those two phrases or indeed the value of throwing in another phrase. I am just trying to get to the point: what is the incentivisation effect of a bonus cap? I am trying to elicit from you whether you would agree with the orthodox view that if you impose a bonus cap you are likely to increase fixed pay at the expense of variant pay, which can be much more closely related to performance. Therefore you will reduce the likelihood of incentives being correctly aligned in a bank.

Lord Hill: Obviously I understand the logic of that argument.

Q710 Chair: Do you agree with the logic of the argument? Do you agree that that is what the effect of a bonus cap is?

Lord Hill: The effect of a bonus cap, if it leads to increases in fixed pay and then does not find a way of having more flexibility to reduce it if performance goes wrong, can have the effect that you describe, yes.

Q711 Chair: That is really helpful, thank you. The reason I am asking this question over and over again in various ways is because when I took a look at the mission letter from Jean-Claude Juncker to you of November 2014 it said, “I also want you to look at the social fairness of regulation ... we should avoid wrong incentives for managers in these industries”, by which he means financial services industries including banks. Have you explained to Mr Juncker that that is exactly what the Commission has done with the bonus cap?

Lord Hill: As I said, it was not what the Commission did with the bonus cap because the proposal put forward by the Commission—

Chair: Okay. It derives from the European Parliament

Lord Hill: It is a fair distinction, because often people use all these terms indeterminately as part of the general—

Q712 Chair: I agree with you. What the EU has done—if you want we can blame the Parliament, if it makes you feel better.

Lord Hill: No, it does not make me feel better. I am just, for once, wanting to clarify that distinction.

Q713 Chair: Have you explained to Mr Juncker that that is exactly what the EU has done?

Lord Hill: If you ask specifically what I have been concentrating on since I have been there, it is generally trying to get a new approach to financial regulation, which is far more proportionate, where we regulate far less and where we review the effect of regulations that have already been passed. In terms of the bonus cap going forward it is

not, as you know, my area of responsibility. Just like the system here, we have a system of collective responsibility and I cannot answer for others. It is the case that my colleague, Madame Jourová, is looking at the question of the bonus cap from the point of view of proportionality and whether, in future, it would make sense for it to be applied in a uniform way to all sizes of credit institutions or whether it makes more sense to do it proportionately.

Q714 Chair: You mentioned your fellow Commissioner there, Věra Jourová. She now has responsibility for the bonus cap, does she not? She in fact is the Commissioner for Justice and Gender Equality, is she not? Do you think she is best placed to think through the complex incentive effects in financial services?

Lord Hill: All of these things are joint Commission decisions—college decisions. To answer your question, yes, indeed I do.

Q715 Chair: That is very loyal of you.

Lord Hill: It is not a question of loyalty. It is a colleague with whom I work and with whom I discuss these issues.

Q716 Chair: When you had your discussions with Mr Juncker you were unclear about whether you have explained the damage that has been done by this cap. I would like to ask you one more question in this area. Do you accept and agree—and if you do not, please say—that this is not so much or even mainly about conduct issues? This need to look at bonuses and incentivisation derives from the need to align incentives correctly in order to restrict inappropriate risk being placed on bank balance sheets.

Lord Hill: Sorry, I have lost the question.

Chair: There are two fundamental reasons why one might try and do something about incentivisation. One is conduct risk and the other is prudential risk. Do you accept that a major driver for doing this is prudential risk?

Lord Hill: A major driver for removing the cap?

Chair: For taking a regulatory interest and a supervisory interest in bonuses.

Lord Hill: I was not there at the time but I think the logic for doing it was both conduct and prudential. I am sure at the time, given the atmosphere that there was, not just in Europe but in many countries, part of it was conduct but part of it was linked to a belief that that would lead to different prudential behaviour, yes.

Q717 Chair: I agree, Commissioner; I think most people would agree. The bonus cap was legally justified as a prudential measure under CRD IV. You have responsibility for the rest of CRD IV. Do you not think it is a bit inconsistent that you are not therefore responsible for remuneration?

Lord Hill: It was a decision that was taken before I took over the portfolio. I get on with what I am given to do.

Q718 Chair: Do you think it is curious it was carved out of your remit like this?

Lord Hill: I do not spend a lot of time speculating why people do particular things. It was a decision that was taken in terms of wanting to put together various corporate governance issues. The logic behind moving it to Mrs Jourová was because that sits with a whole range of corporate governance issues that she has and therefore that takes you into the area of conduct and behaviour.

Q719 Mark Garnier: Can I just carry on with this particular subject a little bit more? One of the things that is coming out of this, if I try to simplify what has been said in the last few minutes, is that essentially you are saying conduct risk is broadly speaking the same as prudential risk when you look at institutions such as banks. At the end of the day, your assets are people and therefore if those people are not conducting themselves properly then you would have prudential risk. You would agree with that, would you?

Lord Hill: I would.

Q720 Mark Garnier: Does it not make sense then, when it comes to the bonus cap and the whole issue of the bonus cap, that it should be part of your remit? I am curious after this discussion you have had with the Chairman as to what your view is in terms of trying to get this back. It strikes me that you would be in a far stronger position if this was part of your remit, rather than leave it elsewhere.

Lord Hill: There are quite a lot of institutional arrangements in Whitehall, for instance, where one might think, in my old job, that having responsibility for post-16 education in a different Department from up to 16 was a slightly odd institutional decision taken at some point in the past. Nevertheless you operate within the system that is there. In practice, is this a big practical problem? No, I do not believe it is, because, as I say, we have a collegiate system where everything is agreed collectively. Decisions on this will be agreed collectively. When we look at the question of proportionality in bankers' bonuses and the bonus cap that is something that I will be doing in concert, as will other colleagues, with the responsible Commissioner.

Q721 Mark Garnier: Andrew Bailey is a prudential regulator up until later this year when he will become a conduct regulator. He said, "Let me be blunt: the bonus cap is the wrong policy. The debate around it is misguided and the best thing I can say about allowances is they are a response to a bad policy." He is part of your world. As a prudential regulator he is part of the world that you oversee. Let us face it: the UK is pretty good in this area. One thing we do have a good track record in is being the lead in terms of financial regulation, in terms of financial markets within Europe. He has something that he feels so strongly about that is outside your remit. I appreciate everything you have said about it being collegiate but this has to be something that surely you must be arguing to bring back under your remit.

Lord Hill: To be honest, the way that the system works means you can achieve your policy objectives in a number of ways. Actually seeking to restructure things institutionally is not always the most profitable way to pursue the issue. Clearly, in terms of the views and concerns people have about it—people in the City of London, regulators,

Treasury—I talk to all of them as part of my job, but, as I say, then the decision is taken collectively.

Q722 Mark Garnier: What would your policy be on this?

Lord Hill: We have an approach, as we do on most things, except on the EU, in the British Government of collective responsibility. I am not going to go down the route of trying to take me and separate me from my colleagues and the way that the system works. In terms of the point about proportionality that I think Mr Bailey is on, I understand the force of the argument about proportionality and that is something that I would argue for. That is something that I argue for in all aspects of my portfolio. I am introducing far greater proportionality into all the legislation that I am introducing and all the legislation I am reviewing. The CRR review, which is underway at the moment, is having a big push on proportionality. You can take from that that that is the general principle that I will always argue for.

Q723 Mark Garnier: At a basic level you agree that if you are going to pay a banker £1, it is better to pay him or her 90p in variable pay because of the ability to claw back and therefore you can improve behaviour by having a balance of risk between the banker and the institution.

Lord Hill: I understand where the Committee is going with this. One has to think back a little bit to the idea that the system that was in place before operated extremely effectively incentivising the kind of behaviour one would want to see in banks and other credit institutions. What led us down this route was a general view, in the UK as much as anywhere else, was that the previous system of incentivising behaviour was working actually in just one direction, which was incentivising people who were paid large sums of money to take large amounts of risk.

Q724 Mark Garnier: That was a pre-clawback era though.

Lord Hill: Yes, absolutely.

Q725 Mark Garnier: It is frustrating. From the point of view of people who have been on the Banking Commission and all the work that has been done in terms of financial regulation in the UK, there has been a massive amount of work done on exactly this. Everybody completely accepts that if you rev up an individual's risk-incentive by taking away all risk from them but giving them all the reward, clearly you get completely horrific outcomes; that is why we had to do something with the bonuses. When you introduce quite substantial measures of clawbacks and of liability, you have a great package of balancing that risk so we have a much more similar type of risk profile than we had with, say, the unlimited liability partnership model pre-big bang, and that was seen as a very good thing. That was doing a number of different things: it was driving better behaviour; it was driving lower base costs for these institutions; and it was therefore driving lower regulatory capital requirements, which could of course mean ultimately that there was more money to be lent into the market. What has happened with this bonus cap is it has actually put us back a very long way. We are now seeing direct evidence that the City is paying these risk-takers higher base salaries in order to try to attract them because we are competing on a global basis. As a direct result of

this we are actually moving back towards the pre-2008 model, which is where you are incentivising people by giving them a pile of money to do what they want with. You are not even incentivising them to do one thing or the other. You are just giving them a lot of cash. That is surely wrong. This is why this is a point that is going around in circles. What we need is assurance from you that you are fighting a corner. We have tried to have an explanation of why Jean-Claude Juncker has taken this out of your remit. Nonetheless we need to feel sure that you are pushing this point hard on behalf of this country and the City of London, which has a huge liability in terms of risk for these institutions.

Lord Hill: My basic approach, which has been a new approach in the area of financial regulation has been to say, “Let us look at the impact of the legislation that has passed in the last five to seven years, which has passed at a time of crisis; people behave in a certain way in a crisis. Let us see if that is working as intended, and give me the hard, granular evidence that explains where there are unintended consequences and where legislation is not working in the way that has been intended.” I would say the same thing to people on all issues. That call for evidence process has just concluded. I am now working through the evidence that we have had back from 20 member states on a range of financial regulation issues. This is not just a UK issue. People feel generally that we need to look at whether we have got that right balance between reducing risk and making it possible for growth and investment to take place. We are going through that process now. In the area that you are talking about, as it starts to develop, you need to let me have that hard evidence.

Q726 Mark Garnier: Can I just ask briefly about the financial transaction tax as well, which is another thing that we disagree with Europe on? 10 member states, including France and Germany, are planning to use enhanced co-operation to impose a financial transaction tax. What are your views on the FTT?

Lord Hill: I have always taken the view on the FTT that if one were to go down that route, these things are best done at a global level.

Q727 Mark Garnier: And not at a micro-level.

Lord Hill: If you want to avoid regulatory arbitrage it makes sense to do things consistently.

Q728 Mark Garnier: Fair enough. Do you think the FTT that is about to be imposed by these member states runs counter to the aims of the capital markets union?

Lord Hill: I think two things. First of all, we need to see where this proposal gets to, which, as you know, has been a long time in the coming and is still coming. One member state recently withdrew from that process. Where it will end up and what form it will end up in is not clear. In terms of its compatibility with the capital markets union, again I think it is fair to say that its genesis was pre the work that I am starting to try to do with the capital markets union to build a single market for capital. The people who are working on it say that, in terms of how you construct it, given that the capital markets union is clearly a priority for the Commission and one of President Juncker’s priorities, whatever may come out of the sausage machine, if something comes out of the sausage machine—and, as I say, I do not know when or what that would be—that you need to take

into account the fact that we now have a Commission objective to try to increase the role of the capital markets in the European economy.

Q729 Mark Garnier: The FTT would stand counter to the objectives of the capital markets union to reduce fragmentation within capital markets in Europe?

Lord Hill: You would need to look at the precise detail of how you would try to construct it, and I am not able to say what that is likely to be.

Q730 Mark Garnier: But you do see it as a risk.

Lord Hill: It is clearly the case. It is clearly one of the issues that came out of the call for evidence. People have been pointing out the need that, if a group of member states proceed with this, they do not do so in a way that cuts against the objectives of the capital markets union.

Q731 Mark Garnier: I have one quick last question. Are there any other tax barriers—I was going to say “daft tax barriers” but perhaps that it being a bit too prejudgmental on FTT—that might stand against the objectives of the capital markets union that are lurking in the side-lines?

Lord Hill: If you mean in terms of new proposals, not that I can foresee. In terms of parts of what needs to be done to try to make sure that when you identify the barriers that there currently are to the free flow of capital, sometimes there are barriers that individual member states put in that act as a barrier, so double taxation on withholding tax, for instance. There are some areas that have arisen out of the consultation that I have done, where the industry has come to me and said, “Here are some barriers”, which we will look at and see if we can overcome.

Q732 Chair: Just to be clear, you are against the FTT unless it can be done at a global level.

Lord Hill: No, on the FTT I said my personal view has always been that these things should be done at a global level.

Q733 Chair: Therefore it should not be done at a sub-global level?

Lord Hill: What I would say is that it is perfectly proper for member states, if they want to try to address something, to do so. The Commission has a duty to support them in that. For me, the issue then would be, if a proposal emerges from this process, that it is then done in a way that is consistent with the work we are trying to do on the capital markets union.

Q734 Mark Garnier: Should we get rid of stamp duty in the UK on equity transactions?

Lord Hill: I do not have a view on what Her Majesty’s Government should do on stamp duty.

Chair: You might feel the need to develop one as this debate itself develops.

Q735 Wes Streeting: In a speech last November, the Chancellor has been bemoaning the trajectory of EU policy-making and he said in his speech, “We have allowed the opponents of economic reform and the liberalisation of services to win the day.” Is that a view that you share?

Lord Hill: No. If I look at the agenda of what I still think of as the new Commission but the not so new Commission, at the heart of its agenda is a new drive on free trade, a new drive on the single market in three areas—of which mine on the capital markets, financial services, is one—and a new drive on what over there we call better regulation and over here we call here deregulation. 80% fewer new legislative proposals were brought forward last year and this year than were typically brought forward by the previous Commission. In terms of the agenda of the Commission, it is clear where it is going. There are some aspects of the recent agreement that reinforce that and will add to that. The Commission in future will have to review its legislation once a year and set itself specific targets and work out how it can step away from legislation. That is all positive. When I arrived in Brussels for the first time, I slightly expected, in a way that some Brits do, that Britain is just one voice and 27 others have a completely undifferentiated, integrationist agenda. That is not what you find at all. Many of my colleagues feel as strongly as I do about free trade and driving forward the single market.

Q736 Wes Streeting: Who are the opponents, do you think, that the Chancellor was referring to in his speech?

Lord Hill: I do not know.

Wes Streeting: I will have to ask him.

Lord Hill: You will have to ask him.

Q737 Wes Streeting: One of the issues is that there are two possibly competing visions of what the single market is for. Some people see it as a vehicle for political and social integration. Others see it as a means to maximise trade and competition. In terms of your own view, is the purpose of the single market transactional or transformational?

Lord Hill: I have always thought of it in an old-fashioned way of thinking: that the job to try to build the single market is to identify barriers that are currently present to trading across borders. If you can build a bigger market then that should, and experience suggests it does, lead to lower prices, more choice for consumers, better services, and more opportunities for successful businesses to compete in a bigger market. In terms of your question, whether I see that as transactional or transformational, I am not quite sure how to answer. In terms of the practical benefits that it can bring, I am very clear what they are. My main day job is to try to do a much better job on overcoming those barriers to the development of capital markets in Europe than has been done so far.

Q738 Wes Streeting: From your perspective in the Commission, how effective do you think the UK Government have been in driving their objectives, particularly around your portfolio, against perhaps competing interests of other member states?

Lord Hill: If I try to answer it from a historical perspective, about 25 years or so ago, I was working at Downing Street, in 1992, and we were going through the Maastricht process. If I think back to the debates that were going on there about enlargement, about the single market, and about free trade, and look at what has happened to Europe since then, many of my new colleagues say when they look at Britain, “Britain is often complaining about things in Europe but they have got the single market, free trade, an agenda on better regulation, and we all speak English.” This is what has happened over the last 25 years. A lot of what we as Britain think of as a British agenda has become a European agenda and a Commission agenda.

Q739 Wes Streeting: So we have been more effective than perhaps is suggested.

Lord Hill: We have been more effective than we sometimes like to feel or admit we have.

Q740 Wes Streeting: Let me ask about your role specifically, because, by the very nature of the Commission and your role as a Commissioner, you are not there to bat for Britain, as it were. You have a collective responsibility towards all member states. If it is simply the case that foreign nationals enter the Commission and lose any sense of national loyalty, why would Britain be so desperate to constantly have a stake in financial portfolios? For example, why was Gordon Brown given such a kicking over going for the high representative job as opposed to one of the economic or financial portfolios? It is the case, is it not, that having a Brit in a portfolio like yours does give us an advantage in terms of the perspective that you can bring to bear?

Lord Hill: First, as you rightly say, it is my job and I seek to do that. I happen to believe that trying to get a single market for capital is genuinely in the interest of all 28, and that is what I am focused on. It is some of the countries that have got the least well-developed capital markets that could benefit from it most. Britain is well placed to benefit from it, as it happens, because we have well developed capital markets and a strong and effective financial service sector. One should not be thinking of these particular portfolios in terms of needing to give a portfolio to the Commissioner whose member state has the biggest national interest in it. That is not right. What I hope I bring to bear in any portfolio that I have is an approach towards liberalisation and towards encouraging competition and to being aware of the impact of regulation on small businesses, having been a small businessman myself. That is, I hope, a healthy contribution to make to the mix.

Q741 Wes Streeting: At what point did the Government choose to drop negotiations around workplace rights in the social chapter during the course of their EU renegotiation process?

Lord Hill: Again, you would have to ask them that one. I do not know whether it was originally on their list and I do not know whether there was a point at which it was dropped from their list. You would need to ask the Chancellor that. That was not a negotiation that I was carrying out on behalf of the UK. That was between the UK and other member states. The role of the Commission—I was not directly involved in that—was to provide technical advice and there were certain specific duties that it has to fulfil in bringing forward legislative proposals. My role was not one to be doing the negotiation

on behalf of HMG. That was done by the Prime Minister, the Chancellor, the Foreign Secretary and others.

Q742 George Kerevan: Good morning, Lord Hill. The European Council agreement in February describes itself as an instrument for the interpretation of the existing treaties. In your view and the view of the Commission, is such an interpretation binding on the European Court of Justice?

Lord Hill: It is clearly the case that the view of the Commission, the Council, and of the British Government is that this is a legally binding agreement. It is preceded because it is the same approach that was done before in the case of the Danes and probably the Irish as well. It worked before, and everyone is clear that this is legally binding and that the commitments in it will stand.

Q743 George Kerevan: So it is an interpretation that is binding on the Court of Justice.

Lord Hill: I have to caveat myself, not being a lawyer. I have seen in the UK recently that there has been a debate about specific legal interpretations. What I can say categorically is that the Commission and the Council and others are clear that it is legally binding in its effect, and that what has been agreed in that agreement will come to pass.

Q744 George Kerevan: Has the Commission taken any legal advice or is it seeking any legal advice on the issue of whether these matters might be binding on the Court?

Lord Hill: Again, not having been closely involved in the minutiae of it, it is clearly the case that throughout this process the Commission had its own legal advice, its own legal services, and the Council had legal advice. The view of all of them is that it is legally binding.

Q745 George Kerevan: The agreement goes on to say that at some stage this interpretation will be enacted in treaty revision. Is there any thought to a timetable on when treaties would be revised?

Lord Hill: There are some aspects that are specifically subject to a commitment that there will be treaty change. As to when that is, there is not a clear timetable yet. What we know is that there needs to be treaty change in due course because as the eurozone member states need to integrate further so the treaties will need to be revised. That, of course, is one of the aspects of the deal. What is encouraging for both sides is that it should enable the process of integration within the eurozone, which is needed by the eurozone and is also of benefit to non-eurozone countries, to take place in a way that protects the interests of the non-eurozone member states.

Q746 George Kerevan: When it comes to the process of treaty change, it is not limited to simply enshrining the February agreement in the treaties. That would be merely a small part of a broader package of treaties changes designed to reinforce the role of the euro and the integration of the eurozone.

Lord Hill: That has been the assumption that at some point in the future—we do not know when—there would be treaty change. At the first opportunity for there to be treaty change, those specific treaty change commitments would be entered into it.

Q747 George Kerevan: Has there been any prior work within the Commission to determine when or in what order treaty change might take place?

Lord Hill: No, in the sense that the process is foreseen—for instance, part of the Five Presidents’ Report, which talks about further eurozone integration. There is not a timetable or a deadline to which people are working.

Q748 George Kerevan: If there is not a deadline then we have really no inkling of which Governments would be in which member states at the point when treaties are revised. Therefore we have no guarantee that those Governments would necessarily wish to agree to enshrining within the treaty change even a part of the February agreement.

Lord Hill: It is binding on the Governments and it is the case that nothing could be changed unless there is unanimity, so the British Government would ensure that it could not be changed.

Q749 George Kerevan: I am just getting clarification. The Commission is saying that the European Council agreement in February binds any Government, regardless of its political colour, of any member state, to agree to enshrine these changes in treaties when treaty revision comes up.

Lord Hill: Yes, the member states effectively bound themselves by signing the agreement.

Q750 George Kerevan: Do you think that is credible?

Lord Hill: I do because it is what has happened before. Everyone is clear that that is what they signed up to. It is the same basis with depositing a legally binding document with the UN, which has been done before and has worked before. Everyone therefore believes that it will work again.

Q751 George Kerevan: If that is the Commission’s interpretation, fine. It seems to me what you are now saying is that the existing member states, having signed this agreement, can now bind in perpetuity all member states, all their Governments and therefore their electorates to agree to this.

Lord Hill: That is what the member states freely agreed to in the way that the British Government freely agreed to it.

Q752 George Kerevan: It would still then be the case that if we have treaty revision the new treaty proposals would have to go in a number of countries to referendum. There would therefore be no guarantee that the electorates of member states, including the UK, which would have to put it to a referendum, would necessarily accept the agreement.

Lord Hill: I am afraid I am not across all of the specific detail of which country requires a referendum under which circumstances for which aspects of whatever. It is

clearly the case that everyone, having been through this and having thought of all potential problems with it, has come up with an approach that they believe is legally binding in its effect. I cannot really say much more than that.

Q753 George Kerevan: I am just seeing where the Commission is; that is fine. I am sceptical but I appreciate where the Commission is.

On a slightly different subject, to take us on to the European Banking Authority very briefly, if the European Council agreement works then essentially non-eurozone countries have jurisdiction over their own financial regulation. The UK is signed up to be a member of the EBA and the EBA is, as I understand it, essentially the champion of the single financial market. What is the likelihood of the European Central Bank, over the course of time, eroding the powers that the EBA has over the single financial market?

Lord Hill: The EBA has a role in enforcing, as you say, the single rulebook, which is for all 28. That is its job. That should not be changed by any aspects of the agreement or any other developments that are going on. In terms of safeguards for the UK so far as the work of the EBA is concerned, as you know, there is a double majority voting mechanism. That is in place and not affected by the agreement.

Q754 George Kerevan: Yes, but you told the European Parliament that you would work to ensure that the double majority voting arrangements would not be needed again.

Lord Hill: That was a specific question about whether that was foreseen to be extended. The basic approach that people wanted to develop within the single market is that if you have a basis of trust you should not need to have all sorts of mechanisms. One of the great strengths of this agreement, in terms of reconciling in a much more principles-based way the interests of the eurozone and non-eurozone countries, is that it does provide a basis for more trust and a way of dealing with people's fears and misapprehensions in a way that was not there before. That is a way of removing the need for other mechanisms. George Osborne, when he came to Ecofin last year, was quite clear in how he was thinking about it, in saying, rather than going for an approach based on a series of opt-outs, he wants to have a principles-based approach where everyone is clear where they stand. On the basis of that, you can work much more on the basis of trust. That is extremely important between eurozone and non-eurozone countries, between the euro group and between Ecofin, which is the council of ministers.

Q755 Chair: Just to be clear, what you seem to be saying there is that these principles are less robust than opt-outs would be.

Lord Hill: No, I did not say that at all. How did I say that?

Q756 Chair: You seemed to be suggesting that the principles-based approach is dependent on trust, whereas an opt-out is entrenched in legal document.

Lord Hill: If I expressed myself unclearly, I apologise. The basic point I was trying to make is that one of the underlying issues has been, generally speaking, a lack of trust. That leads to people being anxious about the motives and behaviour of others, between eurozone and non-eurozone. What the agreement does is put in place a statement of principles. In future it will be against the treaties to discriminate against a member state

on the basis of currency, and then it will put in place a mechanism, were that to happen, so it could be escalated through Ecofin and up to the European Council leaders. That is not a weakening at all.

Q757 Chair: Where does it say in the agreement that it can be escalated at UK request to the European Council?

Lord Hill: It says there that it can be escalated. It does not specify a particular member state. Member states are able first of all to take it to the Ecofin. Then, if they are not satisfied, they can go to the European Council.

Q758 Chair: Where does it say that?

Lord Hill: I cannot find it. I will write to you.

Q759 Chair: Rather than that, why do you not ask one of your staff to look it up and we will come back to it later on in the hearing? As far as I am aware that does not exist in the document. There is a provision that may enable the President, should he choose to refer it. That is well short of a power of escalation to the European Council as you presented it—well, well short of it and something completely different. The European Council operates by consensus. In Ecofin, decisions are taken by QMV. You talked about trust. The description you have just given, if I may say so, has been provided in exactly the form that tends to erode trust on these issues. There are not treaty provisions to enable this to be escalated if a country is discontent. There are provisions that may enable it to be if the President thinks it appropriate. If I am wrong then I will retract what I just said. Here we are.

Lord Hill: You are probably not wrong in terms of words, because you are normally right: “Any member state may ask the President of the European Council that an issue relating to the application of this decision be discussed in the European Council.” It does say “may”, but the way these things work is that that would be the effect; it would be picked up.

Q760 Chair: So you will understand the way I reacted to what you said, which gave the misleading impression that there was a power of escalation to the European Council.

Lord Hill: I would not have sought to mislead you or this Committee.

Q761 Chair: Okay, but these are very, very important issues. This is right at the heart of these negotiations. That is one of the key issues of these negotiations, which many of those people who—

Lord Hill: It is one of the key issues. All I will say is that the wording that is in there is clearly wording that the British Government think delivers what needs to be delivered to address their concerns.

Q762 Chris Philp: Good morning, Lord Hill. Just to clarify the Chairman’s last question there, when the passage you read out says that a member state may ask the President, is your understanding that the President is then bound to accept that request, or

might the President of the Council might, at their discretion, say, “This request is very interesting but I decline it.”

Lord Hill: What it sets out—that obviously speaks to the Chairman’s point—is a process where people would exercise the judgment as to whether they think it goes against what is set out in the agreement. In practice, because of the way the system works, I believe that it would be dealt with and referred upwards.

Q763 Chris Philp: Okay. Effectively it is an absolute right of referral to the Council. The President cannot veto or suppress the request, as you understand it.

Lord Hill: In practice, if people felt that it had not been properly addressed then it could then be discussed in the European Council. The assumption would be that it would be properly dealt with at the Ecofin.

Q764 Chris Philp: Thank you. To continue on one or two points that George Kerevan raised, the agreement recently reached has been deposited with the United Nations, as you pointed out. Were a member state to default on its obligations under the agreement by, for example, failing to enter into the agreed treaty change, or in some other way, what would the manner of enforcing that default be? For example, would it be subject to the jurisdiction of the European Court, as you understand it, or would you have to go to some UN tribunal to seek remedy or redress?

Lord Hill: I would need to follow that up with a note on what the process would be. As I say, people are clear that this is the approach that has been applied before and has worked before, and are confident in the way that would work, but let me address that.

Q765 Chris Philp: To my final question on the legally binding nature of the agreement, I understand some of the provisions, particularly the provisions relating to in-work benefits—the so-called emergency brake—are subject to legislation by the European Parliament. The European Parliament has not given any binding resolution committing itself to legislate. Were the European Parliament not to pass the relevant legislation, what would happen then?

Lord Hill: First off, politically, given that the President of the European Parliament and the leaders of the main groups have all been involved in these discussions and have made it clear that they support this and want to facilitate this, what you posit is not a likely outcome.

Q766 Chris Philp: Saying it is not likely falls short of being legally binding, I would suggest.

Lord Hill: It is clearly the case from the remarks that have been made that you cannot pre-empt what you believe your parliamentarians are likely to do, any more than would be the case in this Parliament. In terms of the process, the leaders have made clear that it is their intention to act quickly to do it. Manfred Weber, the leader of the biggest group, says it could be done in a matter of weeks or months. In practical political terms, were that not to happen the political fallout of that in the UK would be so enormous that the practical politics will lead to it being done in the way that people have said that they intend to.

Q767 Chris Philp: Thank you for that clarification. I would like to move on now to the question of reduction in regulation and the burdens placed on both the financial sector and business more widely by European Union rules. You mentioned a few moments ago that you felt the Commission had a more enlightened approach to this and the volume of new regulation had diminished by 80% compared to the previous Commission. Has the current Commission so far actually repealed any regulation that you are aware of?

Lord Hill: I do not know precise numbers but there have been a number of legislative proposals that were on the table and had started that have been taken off and have lapsed. There were a couple in my own area; across the whole Commission I do not know the number, but a considerable number. Also, more generally, we are going through, led by my colleague, Frans Timmermans, a process of reviewing legislation to make sure that it is still fit for purpose.

Q768 Chris Philp: You mentioned that there were some proposals on the table that were removed from the table. Have there been any regulations that have been on the European statute book and have actually been repealed, to your knowledge?

Lord Hill: Can I point to some that have been repealed in the way that you are saying? I am not sure that I can. The new process in the agreement will help strengthen the mechanisms to start that process. How things tend to work with European legislation is, unlike here, there are periodic reviews of legislation where, in the light of experience, changes can then be made to it. That is a rolling process, as a result of which legislation is frequently changed. I have got a couple of reviews of existing legislation going on at the moment. The outcome of those is likely to be that elements of what was legislated for in the past will be legislated differently in the future.

Q769 Chris Philp: Can you comment on how this commitment will be delivered? It sounds like the European Union's track record historically of repealing regulation is not a particularly extensive one, i.e. you cannot point to any examples, so it does not seem to have happened. Looking forward, can you comment on what process would be put in place to make sure that unnecessary regulations will actually be repealed in the future? What comfort can you give the Committee, and more importantly the wider public, that the European Union's historic rather poor/non-existent track record at repealing regulation will be different in the future? Hopefully our renegotiation will have given that a bit of a boost.

Lord Hill: I would come back to the points I have made. First of all, the new Commission showed that the approach that people sometimes associate with the Commission, which is that you reach for the rule book and legislate from that first and that is how you do things has changed. To bring forward 80% fewer bits of new legislation is clearly a sign of a changed mentality towards how you go about legislating.

Chris Philp: With respect, I am asking about reducing the existing stock of regulation.

Lord Hill: I know you are, but you asked how I would try to give reassurance to the public that it is actually going to change, rather than it being some old flannel. My starting point is that we have already demonstrated a new approach to new legislation. In terms of existing legislation, in my area I have demonstrated that I am up for

understanding from people who are affected by that legislation the cumulative effect of it and whether we need to change it. That is a new sense of direction.

We then have various bits of work already underway to do with the re-fit process, looking at the body of existing legislation. There is the mechanism that has been put in place as part of this agreement in terms of making sure that from now on the Commission is going to have to report to the Council once or twice a year on the existing body of legislation and whether that is needed or powers in that need to be returned. That mechanism will now be put in place as a result of this deal.

Q770 Chris Philp: That is helpful. Do you think your fellow Commissioners will go through the same process that you recently went through of doing a consultation with businesses or industry practitioners in their area, to actively seek ideas for deregulation?

Lord Hill: It is something that I would encourage them to do. It is something that Frans Timmermans, who is the First Vice-President of this area, is very supportive of. Personally I think it makes a huge amount of sense.

Q771 Chris Philp: Will there be the opportunity for member states to propose the specific removal of regulations or legislation?

Lord Hill: There should be. In my call for evidence, I encouraged member states. I wrote to all of the individual Ministers to say, “Let me have your proposals.” Member states should absolutely be putting forward their ideas, as should national Parliaments.

Q772 Chris Philp: They cannot formally propose, can they? It is only the Commission that can formally propose legislation.

Lord Hill: The Commission has got exclusive competence for proposing legislation.

Q773 Chris Philp: Do you think we will see an end to things like this recent directive attempting to limit the power of hoovers? Why is the European Union getting involved in limiting the power of hoovers?

Lord Hill: That is an extremely good question. What we need to do is work through and look at all of these things, to see what scope there is for simplifying things and making things more proportionate and, going forward, which I think we are making some progress on, resisting the temptation to think that you have to legislate for everything.

Q774 Chris Philp: Can I ask the same questions with respect to subsidiarity—that is to say, returning powers or competencies currently exercised by the European Union back to member states? To repeat the question, to your knowledge have there been any powers recently that have been passed back from the European Union to member states?

Lord Hill: No.

Q775 Chris Philp: What assurance can we therefore have that such powers may be handed back in the future?

Lord Hill: Part of the purpose of putting this new mechanism in place is it puts in place something that starts a direction of travel that can look at that kind of process.

Chair: We have a lot to get through. **That was a very interesting exchange, but we are going to move on.**

Q776 Stephen Hammond: Good morning, Lord Hill. You obviously set out your stall fairly quickly on the point you raised, which was that a new regulatory phase was going to be entered. Can you tell us how much that new regulatory phase, which is effectively going from implementation, enforcement and evaluation, was a driving force from you, how much that was a reflection of the new Commission and how much it was a reflection of the UK's stated desire to change things, given we have now taken the financial portfolio?

Lord Hill: I think it is a bit of both of the first two. It is clearly consistent with what the Commission as a whole is doing. As I was explaining earlier, the collegiate nature of the way it works means that stuff that individual Commissioners do goes through a process whereby all the colleagues are behind it. From the point of view of what I have been doing in my area, it is a natural thing that I would have wanted to do in any case, because that is just how I think about the world. However, the fact that it fitted very neatly as part of a bigger push that Timmermans was making and that my other colleagues are trying to take forward meant that the two combined.

Q777 Stephen Hammond: You have obviously then gone on to announce a wide-ranging review of the post-regulatory framework. You have said part of that would have been your normal mentality anyway. Just to be clear, post-crash there were elements of regulation put in place that encompassed all financial services. How much of the desire for that review was put to you as the fact that certain elements of that regulation were inappropriate for differing elements of financial services? How much of it was just the need for a general review?

Lord Hill: It was a bit of both. I had a starting point, which is not derived from financial regulation but from looking at different responses over the years that different institutions make to crisis. They are normally slow to spot it and then there is the sound of stable doors being hammered shut. You tend to get the herd over-reaction having had the under-reaction. In any area you can think of, there is a common pattern and everyone says, "This must never happen again." I start with that mindset.

What was also clear was that, whereas there was a widespread acceptance, including from the financial services sector, that the result overall of the reforms was to make the financial architecture stronger, a number of people came to me. I have tried to have as open an approach as I can to financial service practitioners to come to me with practical examples. If you then explain where either there have been unintended consequences because different pieces of legislation cut against each other or, because they came sequentially, you had not foreseen in the first one what would happen when you did the third one or vice versa, or when you look at the combined impact of legislation in terms of things like the effect it might have on liquidity, you should have a look at it.

Therefore, it was a combination of my own prejudices or outlook and people coming to me saying, “Look, this is not working in the way that everyone had hoped.”

Q778 Stephen Hammond: In the call for evidence, you asked for empirical evidence and concrete feedback. Are you satisfied that what you have received so far falls into that category, rather than just complaining for the sake of complaining?

Lord Hill: To be honest, we have had hundreds of responses and I have not been through all the hundreds of responses. That closed at the end of January and we are now working through those responses. What is emerging from it so far, and the sense that I have from my officials, is that people have provided detailed evidence. They have not just asked, “Why have you done all of this bloody regulation?” It is specific and related to cause and effect, which is what I hoped to get from it.

Q779 Stephen Hammond: I accept that obviously it has only been finished for around a month; the call for evidence closed on 31 January. You set out four criteria in terms of where you particularly wanted to look, and you have obviously already hinted at your concerns about unintended consequences. In that brief review, or the chance you have had to review that, is there any one of those four categories that you are getting more responses from than others?

Lord Hill: I am not sure I can give you a reliable, quantitative breakdown. There is a general sense of duplication, a general sense of over-complexity, and one of the areas we need to look at again is unintended consequences on liquidity. I am hoping that we will get evidence that will help inform that debate, because at the moment it is a fairly polarised debate.

Q780 Stephen Hammond: Leading on from that, in terms of the unintended consequences and the impact on liquidity, are you hopeful that will drive some of your thoughts or push the CMU discussion further?

Lord Hill: Yes, very much so. That has been the way I have tried to approach it. I have not taken the perhaps traditional response of starting with an institutional approach to the single market for capital. I kicked off with going to the industry and others, like consumer groups, saying, “Okay, tell me what you think the practical problems are that are preventing the free flow of capital.” On the basis of that, we then came up with our whole action plan, which stemmed from what respondents to the consultation had told us were the practical problems that they encountered when they were running their business. I felt that that was a more concrete way of doing it and I hope this, in the same way, will give me evidence and pointers as to where I should look. When the opportunity for making changes presents itself, I can try to take it.

Q781 Stephen Hammond: Can I just ask three questions about the mechanics of the review? First, what is the expected timeline? Secondly, are you ascribing, in the responses, different weight to different respondents or are you treating all respondents equally? Given that you have already laid out that your cursory look has allowed you to identify the themes of over-burdensome regulations in certain areas. Can we expect you to bring forward plans for repeal of certain regulations?

Lord Hill: In summer I hope to be able to say something more concrete about what the conclusions are and where that takes us. In terms of weighting, one has to look at the quality of the evidence rather than who it is from. If there is a weight of evidence and a number of people saying the same thing, irrespective of their size, then that helps you.

Q782 Stephen Hammond: So what about a trade body against an individual organisation.

Lord Hill: Generally speaking—it reflects one of my other prejudices—I am interested in the views of market practitioners because trade bodies perform an important role but they are normally trying to reconcile a range of interests of their own membership. Trade bodies have been very keen to contribute and support the capital markets union, but I am always interested in people who are at the sharp end of knowing how something bites on their business. What was the third question?

Stephen Hammond: We can expect you, without fear or favour, if you see—

Lord Hill: Yes, if I see something to make a change, that is the whole point of doing it. I am not interested in an academic exercise.

Q783 Rachel Reeves: The Foreign Secretary said recently, I think it was on the *Andrew Marr Show*, “What I think I fear, and many people in Europe fear, is that without Britain Europe would lurch in very much the wrong direction.” What do you think he means by that?

Lord Hill: I imagine he means that he thinks that Britain makes a hugely important contribution to Europe in a number of areas. He may be thinking particularly of foreign policy and security-type issues, which is obviously the case. In terms of arguing for what people over here would think of as being a free-trading, outward-looking, liberal approach to how you try to make your economy more competitive and strengthen the single market, I think he would probably think that Britain has an important contribution to make in that respect.

Q784 Rachel Reeves: He went on to say, talking about other EU countries, “They will not have an interest in demonstrating that we, Britain, can succeed outside the EU.” Do you share those concerns, particularly in relation to financial services?

Lord Hill: This reflects some longstanding concerns that people have had in the UK about a competitive position. In the area of financial services, one of the things that I worry about a lot is trying to help people understand that, were we to leave, the consequence in terms of financial services and access to that single market would be very significant. One point is not being part of it and having the rules that govern our access to the single market, if we wanted to have access to the single market, being drawn up without Britain in the room. If you fear of competitive advantage being taken by other member states then I understand why you would fear that. Even if other member states did not want to use the opportunity of us being outside and having to negotiate entry to the single market for competitive advantage—even if they did not, which I think is unlikely—there is a different shape of the financial services industry in the other big players in the EU. If you look at the shape of the financial services industry in France or in Germany, they have different preoccupations from the preoccupations that a UK Minister would

have in negotiations, thinking about the broader capital market interests of the City of London.

Q785 Rachel Reeves: There are two concerns that I think you are suggesting. First of all, rules would be determined, which we would have to abide by if we wanted to access the market. The second concern is that the priorities, when drawing up those rules and thinking about financial services, would not be on things that would be our priorities.

Lord Hill: Yes and yes. One of the things about doing this job is that I am the person that, like the Norwegian Finance Minister or the Swiss Finance Minister, finds himself in this situation of being outside but governed by the rules; they are in slightly different versions. I know what that means and I know that in the case of Norway they have to follow the rules of the single market, they have to pay for access to it, and, as it happens, they also have to offer free movement to EU migrants, twice the rate per capita as we do in the UK.

Q786 Rachel Reeves: With the specific example of Norway, I have no idea about their financial services sector.

Lord Hill: It is less important than the UK's.

Rachel Reeves: Are there things that they would come to you about, where they would be frustrated that it was not on the agenda, because it was something that they cared about, or is that not the case?

Lord Hill: It is a bit like that. To be honest, they are in the position of—I do not know what the right word is—fax diplomacy or the position of being a supplicant. I think for London and all the financial centres outside London—everyone thinks of the City of London, but over half the people working in UK financial services are outside London; our biggest export market—for us to be in that position would be, to put it mildly, a trifle odd.

Q787 Rachel Reeves: Your concern is that we would be left in that position and that we would just be sending faxes.

Lord Hill: I think there are a number of things. The honest answer is that we do not know what the nature of the relationship would be, because there are various things to consider; nobody has left before. We would have to work that out as we went along. I genuinely cannot see why we should think that we would get better terms than we currently have, however it is negotiated. I think we would get worse terms. Apart from the length of time it would take to negotiate and the uncertainty that it would cause, it is a problem for the industry, but more than what I think, it is what the industry come and say to me.

Q788 Rachel Reeves: Are there any examples since you have been in your job, Lord Hill, where you can think of things where Britain has succeeded in getting something that we would not have done if we were not at the table?

Lord Hill: My main concern would be around the fear of what might happen if we were not there in the future. In terms of things, one example that I am sure this Committee

debated on at great length at the time was the carve-out from the derogation from bank structural reform that my predecessor negotiated with Mr Osborne. That would be a pretty big example of where actually being there enabled something that was clearly in the interests of the UK economy and banking sector to be negotiated.

Q789 Rachel Reeves: Moving on to specifically our role in clearing eurozone transactions, around €250 billion in euro-denominated transactions are cleared in London every day. If the UK was not part of the EU, do you think that that business would stay in London, or do you think it would move to a different European country?

Lord Hill: For different parts of the financial services sector, there would be likely to be different consequences. One of the main benefits of being in the single market—

Chair: It would be very helpful if you could just answer that important specific point.

Lord Hill: On derivatives clearing?

Chair: Yes.

Lord Hill: The reason that London is so successful is partly because of its critical mass and its global nature, and that then is part of the reason for its continued success. If parts of that activity start moving elsewhere, then that undermines London's overall attractiveness. I know it is the case, from some conversations that I have had, that some people in the clearing business are, as you might expect, hedging their bets by thinking about making acquisitions in other European countries so that they have a base in case Britain were to leave.

Q790 Rachel Reeves: There is no reason why those transactions could not be cleared in London, but you think that—

Lord Hill: People who do it for a business are making plans for the possibility of a Brexit.

Q791 Rachel Reeves: What other countries would they go to?

Lord Hill: Depending on your business line, you would make that choice. For some of them they would go to the Netherlands; others would go to France or Germany. I think there would be a range.

Q792 Chair: I am a bit concerned there too. It would be hugely helpful if the Commission could give some thought to the question and come back to us. That is a crucial question. Some hold, with some credibility and with a lot of argumentation lying behind it, that quite a bit of this business will migrate. However, you have not been giving us that answer in any detail. If it is incorrect, you had better come back and tell us that actually you think it will all stay in London.

Lord Hill: The basic point is that it is difficult to quantify precisely. All sides of the argument should be honest about that. I have the views that I have from the marketplace. I am happy to try to find a way of relaying these to you. Let me try and do that.

Rachel Reeves: It would also be helpful to know where that business would go. I have one other thing.

Chair: Very quickly if you would. I apologise, but we have Treasury Questions.

Q793 Rachel Reeves: Jamie Dimon of JP Morgan has said that Brexit would result in a massive dislocation for the City. Goldman Sachs has also suggested that business would move elsewhere. Building on my previous question, is that something that you hear from market participants?

Lord Hill: Yes.

Rachel Reeves: Again, it would be very useful to know.

Chair: Could we have a bit more substance to that, perhaps not orally but in writing? The Commission's considered view on that point would be valuable.

Q794 Mr Rees-Mogg: Thank you for coming in. You do not have to come in front of us; both as a peer and I assume as a Commissioner you have an opt-out, so it is gracious of you to come.

Lord Hill: I have a principles-based approach to Select Committees.

Mr Rees-Mogg: On this issue of transactions in the City, are you suggesting that the European Union will apply selective capital controls against the United Kingdom if we leave?

Lord Hill: No. What I am flagging for people, in a genuinely sceptical way—in the original meaning of the word—is to ask themselves what the consequences might be were we to be seeking to do business outside the single market. Some of those consequences would be in terms of things like passporting, or in terms of what the negotiation would be if you wanted to have access to it and how that would work. If you decide you do not want it, you have to go through an equivalence process. I am not sitting here saying to you that there would be a punitive regime designed to target the City of London. What I am saying is that there are a number of practical consequences that are important to think through.

Q795 Mr Rees-Mogg: Capital is extremely mobile. People move their capital to where it would be most effectively used, not where they are told to by Governments. Is that correct?

Lord Hill: Yes.

Q796 Mr Rees-Mogg: The United Kingdom is the largest centre for foreign exchange transactions, regardless of whether we are in the European Union or not. That is a very longstanding, historic position. It is helpful if you speak.

Lord Hill: Sorry, I did not know if you were asking me something.

Mr Rees-Mogg: I just wanted to get your agreement.

Lord Hill: Yes.

Q797 Mr Rees-Mogg: The single market is actually damaging to UK interests because what it has done is regulated everybody for the small minority who actually trade with the European Union. That has not done us any favour and the regulation that has been thrown upon the City has made it less competitive. Would you dispute that?

Lord Hill: I would dispute that.

Q798 Mr Rees-Mogg: How would you dispute that?

Lord Hill: Again, I know that you are experienced in the marketplace and I defer to that. However, when I look at what has happened to the size of the surplus generated by the City of London over the last 10 years, I see that it has doubled. I find it quite hard to square that with a picture of saying that the City of London is being held back and undermined by membership of the EU and the rules of the single market. I know that you can find different people with different views and different lines of business. Look at the number of people working and investing in the City and global players coming to London as a pathway into a single market of 500 million people. Additionally, the number of people who come to me and seem to think that this is basically a good deal; they know there will be bits of regulation, depending on their business line, that they would rather was done differently, but that is what I find from people generally in the marketplace.

Q799 Mr Rees-Mogg: It is very interesting that you say that the surplus in trade in the City has doubled in the last 10 years. We did not join the euro, and a lot of the people who are now saying it will be a disaster if we leave said that the City would stop doing business if we did not join the euro. Do you see any parallels in that?

Lord Hill: Personally, as you may recall—I do not know—I was not on that side of the debate when it came to the euro. I was working for Business for Sterling, trying to keep Britain out of the euro. I do not see that, because there were some people who were in favour of the euro and now they talk about the dangers of leaving, it negates the argument about the dangers of leaving.

Q800 Mr Rees-Mogg: Let us go a little bit further back in your history, to your youth, when you were working for John Major in Downing Street. In 1992 he made a speech to the Scottish CBI saying that it would be a betrayal of the nation's future if we left the exchange rate mechanism. Leaving the exchange rate mechanism led to one of the most sustained economic boosts in our history. You were part of the Downing Street team at the time. Do you not see that the crying of wolf by people who are advocating the European option lacks a good deal of credibility?

Lord Hill: I agree with you about the danger of crying wolf. I think people cry wolf. I see this debate going on in the UK from one step back now. There is, and has been historically, quite a lot of wolf-crying; I accept your analysis. I do not know what the opposite of wolf crying on the other side of the debate is, but now when I look at the debate I think there is quite a lot of that going on. It is not crying wolf to ask some of these questions, which I think are real.

Q801 Mr Rees-Mogg: Are there not dangers on the other side. I think you mentioned to Mr Kerevan an issue on the financial transaction tax. If the FTT is introduced by enhanced co-operation, the City of London will have to collect that tax on transactions covered by it in continental countries, on behalf of those Governments. If we are not in the European Union, we will not. That is a major potential obstacle to business that is actually in the pipeline from the European Union. It is beyond the theoretical.

Lord Hill: We probably do not need to re-run the FTT debate we had earlier. It is not possible to say what is going to happen to that proposal and what form it will take.

Q802 Mr Rees-Mogg: But there is a proposal. It has the minimum number required for enhanced co-operation.

Lord Hill: At the moment it does, yes.

Q803 Mr Rees-Mogg: It is true that if it is introduced, a French bond trader in London would then have to collect that tax and pay it to the French Government.

Lord Hill: I do not know what the proposal would be because the detail of it does not exist, but I take your basic point that there can be some instances where you might think. If you are not in, there might be some—

Q804 Mr Rees-Mogg: If we are not in we would not have anything to do with it at all, so that is a real threat to the cost of doing business in the City, coming from the European Union today.

Lord Hill: I would suggest, when you look at the existing body of legislation that is there and the argument that is sometimes made that the existing financial services regulation is so bad that it is holding back the City of London and therefore we should leave, that is not the sense that I get from talking to most people in the marketplace. As I say they have their frustrations but they tend to think that access to the single market is nevertheless something to be had. The question then becomes, if you decide to leave, what the terms are that the other member states would expect from the UK. If we wanted to have access to that single market, what would they cover?

Q805 Mr Rees-Mogg: I think the single market is not all that it is cracked up to be. It is worth bearing in mind that US trade with Europe has grown faster than UK trade since the creation of the single market, so you do not need to be under those rules to trade in the UK. I would also note that the market participants that you talked to were probably the big bureaucratic players that quite like regulations. The smaller players are very often much more Euro sceptic, particularly the best hedge fund managers like Crispin Odey.

I want to ask you one final question. Do you think that if we leave the European Union will follow its treaty statements in good faith?

Lord Hill: Its treaty statements towards what?

Mr Rees-Mogg: Its treaty statements under Article 50 and Article 8.

Lord Hill: Sorry? What are you driving at?

Mr Rees-Mogg: I am asking whether you think the European Union will follow its treaty statements in good faith. It is quite a simple question. I am a bit worried you are hesitating; do you not think the European Union follows its treaty obligations in good faith?

Lord Hill: Whatever treaty obligations it has I am sure it will follow, but I am being slow as to what you are driving at.

Q806 Mr Rees-Mogg: That is very helpful. Your starting point is that they will follow them in good faith. We can trust the European Union to follow its treaty statements in good faith. Do you think that?

Lord Hill: If there are treaty obligations then it is bound to follow them.

Q807 Chair: Do you think it is going to follow its treaty obligations in bad faith?

Mr Rees-Mogg: It is quite extraordinary that you pause.

Lord Hill: I did not know what question you were driving at behind the question. The answer to whether the EU will follow its treaty obligations is that yes, it will.

Q808 Mr Rees-Mogg: Article 50 provides very straightforwardly for a two-year period. If people are going to negotiate in good faith, that is not this enormous catastrophe or Armageddon that some of our hysterical bankers have suggested, is it?

Lord Hill: Now I see where you were going with your question. In terms of what would happen during that process, yes, I do believe people would negotiate in good faith. I think how it would pan out, given that Article 50 has not been activated before, one cannot say with any certainty.

Q809 Chair: That reply sounds to me like there is good faith and good faith.

Lord Hill: No, absolutely not. What I am trying to get at is this thing behind Mr Rees-Mogg's question. People are saying that the process would be uncertain and could take a long time—two years with the possibility of extension.

Q810 Mr Rees-Mogg: What I am really getting at is that the fear campaign is based on the assumption that the EU will not follow its own treaties, because Article 50 sets out how we leave, and there is a perhaps equally important Article 8 that is a founding principle of the EU: that it will try to maintain good relations with its neighbours. Do you think that treaty article will be upheld?

Lord Hill: To come back to your question, yes, people will uphold the treaty articles. I also think that in terms of the length of time that this takes, if I look not solely at Article 50 but at the length of time it takes to negotiate trade deals, the length of time I have just been going through an equivalence deal with the United States on CCP recognition, which has taken four years, where I was keen to do it as fast as possible and so were the Americans, these things take time, and, in terms of what you get out from it, people can enter into it in good faith but actually, when you are in the position of wanting

something and needing something more urgently than the other side perhaps needs it, normally in business transactions the person that is more needy gets a worse deal.

Mr Rees-Mogg: So there is good faith and good faith; the Chairman is basically right.

Q811 Helen Goodman: Thank you very much. It is very nice to see you in London this morning, Lord Hill. You answered questions for about half an hour on removing the bonus cap at the beginning of the session. I just want to put on record that removing the bonus cap is not the priority of every Member of this Committee, nor avoiding the financial transaction tax.

Is it not the case that prior to the financial crash, as you pointed out, the financial services sector in London had a different shape from any other nation state and that more risky behaviour was being engaged in in London than in the other countries, and that some of the pushback against European regulation is coming from those people who would like to re-engage in risky behaviour.

Lord Hill: No, I do not completely share that analysis. There was quite a lot of risk into the European financial system that actually came from the nature of different banking industries in different countries. I do not accept the distinction between London and the UK being dangerous and risky and the rest of Europe being completely safe. The job I have to do is to try to identify risk in whatever form it comes and to find ways of mitigating against it. You are right in that some of the political background to the regulation came from a public feeling of shock and fear over what was going on, as well as the huge bailouts on the backs of taxpayers and the people wanting that to not happen again. I am trying to make the existing body of regulation as sensible, growth-friendly and proportionate as possible, not because I want to push back and re-encourage intrinsically risky behaviour, but because I think that, when you have a response like that, you normally get group behaviour and thinking, and people tend to become more risk-averse than is perhaps altogether wise if you want to encourage growth.

Q812 Helen Goodman: Thank you very much. I would like to ask some questions that follow up from the questions Jacob Rees-Mogg was asking. One of the criticisms made is the cost of EU regulation on financial services. Do you think that the total cost of European regulation could be avoided were we to leave the EU, or do you think that we would be obliged, in order to maintain our position in the single market, to continue to comply with a good number of those regulations?

Lord Hill: It would depend on what relationship was negotiated after Britain were to leave but, in any one that I can foresee, yes, you would still have to comply with the legislation although you would not be able to shape it. There is quite an interesting figure on the costs of the AIFMD legislation, of which there are many criticisms, but the cost of applying and implementing it in the United States—I think I saw some figures—was actually higher than in the EU. These costs, a lot of which come from global regulatory standards—not in that case but in others—would exist.

Q813 Helen Goodman: One of the points made by the people who would like to leave is that we are applying regulation to the whole sector when it is necessary to apply it

only to those people who are participants in the single market, and that that adds to cost. Have you any thoughts on the cost burdens of complying with a UK regulatory framework, an EU regulatory framework and possibly other regulatory frameworks such as American?

Lord Hill: I do not have any precise figures that I can give you. When you talk to businesses, they will sometimes point to the cost of a regulation that comes from a global body like Basel. Sometimes it might be EU-specific. Often, though, it might have arisen because of the way it has been implemented in the UK, or because the UK has gone down a different route. There are a number of different strands to it. My job is to try to reduce the cost of compliance, particularly for small firms, as much as I can, so commensurate with your prudential objective, but to try to make it as least burdensome and prescriptive as I possibly can.

Q814 Helen Goodman: You are embarked on a project of reducing compliance costs and the regulatory burden, from which we will benefit if we stay in, and so there is no need, in some sense, to leave if you are successful. What do you see as your probability of succeeding with this project?

Lord Hill: That is hard for me to quantify. In terms of the overall political context, I have observed that, if a British commissioner had popped up in Brussels a few years ago and said, "I am going to try to do a capital markets union", you would have got a raspberry because people would have thought that increasing the role of capital markets is something that happens in London and America. Now there is political support for a single market in capital in all 28 member states and, in terms of the work I am trying to do with my call for evidence, strong support from all member states and from the European Parliament.

The context is supportive and encouraging and it is up to me to keep pushing it and doing it. I cannot give you a firm deadline in terms of how long it will take. It is a work in progress.

Q815 Mr Baker: Lord Hill, thanks for coming. Reflecting on what the Chairman said earlier, what is the basis in treaty law for your financial stability powers?

Lord Hill: We went through that part of the conversation before. The Chairman remonstrated with me and I said that I would follow that up afterwards.

Q816 Mr Baker: That is really why I am coming back to it, because I am not quite sure I follow. I think you are saying that you do not know what the basis is in treaty law for your powers.

Lord Hill: Again, we went through this conversation, and the Chairman made the point about where it exists in the treaties and was asking the question.

Q817 Mr Baker: I think the right answer is that there are no powers for financial stability in the treaties, in which case are you acting ultra vires? Are you accumulating powers to the Commission without a basis for doing so?

Lord Hill: The Commission is not exercising powers on financial stability. The individual member states are exercising those, as in the case of the Bank of England. There are bodies set up to co-ordinate the central bank governors dealing with financial stability issues and I, as the Commissioner, sit on those.

Q818 Mr Baker: Further to Mr Philp's questions, is the Government's deal in conformity with existing treaties?

Lord Hill: Again, I am sure that those people who did the negotiation, which I did not, will believe it is in conformity with the treaties.

Q819 Mr Baker: Yes, and indeed the Council conclusion says, "Desiring to settle, in conformity with the treaties, certain issues", etc. If the deal is in conformity with the treaties, why do you think that treaty change might be necessary?

Lord Hill: So that it will be in conformity with the new treaties after treaty change. Treaty change is foreseen for those two specific areas where you need to have treaty change to put it in the treaty.

Q820 Mr Baker: I am confused by what you have said now, because I understand this conclusions document to be saying that the UK's new deal is in conformity with the treaties as they are.

Lord Hill: They are clearly in conformity with the treaties as they are in that case, but there are two specific areas where there is treaty change to come.

Q821 Mr Baker: You also said that practical politics in the UK would imply that the deal was bound to happen. You also said something along of the lines of it not being wise to pre-empt what parliamentarians would do. Are you confessing that this deal is not in fact legally binding on the European Court of Justice in the way that people like to think "legally binding" has meaning?

Lord Hill: No, and we had a long exchange on that as well. Again, I have to apologise for not being a lawyer and for not having conducted the negotiation. I am a Commissioner who happens to know a bit about what has been going on but I have not been involved in the negotiations. The collective view of all the participants in the negotiation is that it is legally binding.

Q822 Mr Baker: But the Parliaments might not actually do what their leaders want them to do; and, indeed, where referenda are required, they might not be passed.

Lord Hill: Again, we had that bit of the conversation.

Mr Baker: I know. I am asking you to confirm, based on what I understood.

Lord Hill: I cannot really add a huge amount to what I said before in terms of what the Parliament and President Schulz have said and how I believe Parliament will behave.

Q823 Mr Baker: You described Norway as a "supplicant". How many times has David Cameron been out-voted in the European Council since he became Prime Minister?

Lord Hill: I would not know that number.

Q824 Mr Baker: 40. Since records began, the UK has been out-voted 72 times in the Council of Ministers. Are we not supplicants anyway, even though we are members?

Lord Hill: All I can say, in terms of being in the belly of the beast, is that it does not feel as though Britain is a supplicant. It feels like Britain, as you would expect from the second biggest economic power, is a significant player in these debates. As we discussed earlier, it has helped shape and change a lot of the debate within Europe. I would not recognise your description from my day-to-day experience of working in the system.

Q825 Mr Baker: According to the *Review of the Balance of Competences*, the Royal Sun Alliance gave evidence that, “With 90% of global growth happening outside the EU [...] the Single Market needs to become more competitive and be open to business from outside its borders”. HSBC has said that 17 of the top 30 economies in the world could be emerging by 2050. How important is it to you, therefore, to make sure that you are open to financial services trade all around the world?

Lord Hill: We should be as open as we can be and that is something that I am trying to push. I was out in Hong Kong recently. I want to try to improve the way that we do equivalence processes. I think we should be open and I also agree with whoever it was who said that we need to make the single market more competitive.

Q826 Mr Baker: How much pushback did you get from the Americans over TTIP in this regard?

Lord Hill: This is something that is helpful to understand when people think of alternative models. The Americans are ferociously strong negotiators in their national interests and so, in terms of trying to get more upstream financial regulatory co-operation with them in TTIP, they are not terribly keen.

Q827 Mr Baker: Is it a good idea to press for the same set of regulations everywhere when, for example, I have learned in the course of this meeting that the Commission has just ruled that the purpose of accounts is to provide a true and fair view, which therefore seems to imply that IFRS accounting, which has been imposed on the UK and in particular on banks, is not compatible with the EU’s own law? Andy Haldane himself has said that IFRS is pro-cyclical, and yet here we are trying to get the Americans to agree to the same rule-book in the Government’s deal. Is it really a good idea to have a single set of regulations for the world in the way that the EU seems to be pressing to achieve?

Lord Hill: There are two things. First, within the European single market of 500 million people, it is a good idea to have a set of rules that everyone can operate by. At the second level, you need to have the right set of rules. I would agree with you and everyone else who thinks that the least burdensome, compliant and over-complex that you can get those rules the better, particularly for small businesses.

I do not recognise your description of the EU trying to impose global rules on the world. There is the FSB, which is set up by the G20, of which the UK, the United States and others are members, where the general view is that it makes sense to try to have some common approaches on difficult issues of global regulation, because if you can do the same thing then you can open up markets more.

Q828 Mr Baker: I need to move on, because of time, but, when you go back to the Commission, please do look into what has just been ruled on IFRS. I have banged on about it for several years now and I am quite sure there is a serious problem. If the UK votes to leave the EU on 23 June, do you expect to still have your job on the 24th?

Lord Hill: I have always believed that you respect the will of the people, so I will cross the bridge of what happens afterwards when I cross that bridge. What happens to me is the least important issue, out of any you can possibly think of, in terms of the referendum on the future of the United Kingdom.

Q829 Mr Baker: Well, I am after a matter of fact here because there are another thousand UK nationals working at the European Commission. Is it not the case that they will continue to have their jobs the day after the referendum vote?

Lord Hill: To be honest, I do not know what the staff arrangements would be.

Q830 Mr Baker: I am going to keep pressing you on this until you give me a direct answer.

Lord Hill: I do not know. You can keep pressing me, but I cannot say anything because I am not in charge of HR. Going back to Mr Rees-Mogg's earlier point, there is the Article 50 two-year process so that has to be gone through.

Q831 Mr Baker: So are you agreeing with Mr Rees-Mogg in what he has just said: that we will still be members the day after the vote?

Lord Hill: We would have voted to leave and then a process will have been started whereby we work out the terms on which we leave.

Q832 Mr Baker: So the day after the vote, you and the thousand other British nationals will continue to have their jobs on the basis of EU law as it stands at the time.

Lord Hill: To be completely honest—and you may think this is very derelict of me—I do not think about what is going to happen to me and therefore I have not inquired as to what happens to my job. I will do what happens in the light of what the British people decide.

Q833 Mr Baker: That is very selfless of you, but is it not the case, as a matter of fact, that the law that leads to people being employed by the European Union and the European Commission will be unchanged on the day after the referendum? This is a crucially important fact.

Lord Hill: It is clearly the case that, the day after we vote to leave, if that is what happens, there is a process, as Mr Rees-Mogg described earlier, under Article 50; and that during that process, which has to be gone through, the existing arrangements—which many people who want Britain to leave argue are so unacceptable that we must leave—would be in place until new arrangements are put in place.

Q834 Mr Baker: At what point in the process would you expect UK nationals to be removed from the Commission?

Lord Hill: I do not know.

Q835 Mr Baker: Do you think you might answer the question in a letter to us?

Lord Hill: If there is an answer that I can find.

Q836 Mr Baker: You are not expecting everybody to have to pack their things into boxes ready to be removed, on the day after the vote, which is only politically binding on the UK Government and not legally binding on the European Union. Is that right?

Lord Hill: Again, we have described the process that will happen and we have agreed what that process is.

Q837 Mr Baker: Finally—I make no judgement on this, but just as a matter of fact—in your evidence to the European Parliament’s Economic and Monetary Affairs Committee you said, “I will be under a legal and indeed moral duty, like all Commissioners, to work for the general European interest”; and, later, “If confirmed, I will be a European Commissioner, serving the general interest, not any one member state’s interest”; and, later, “My strategy will be inclusive and to serve the interests of the European Union as a whole.” I think all of that is absolutely in conformity with the solemn oath that you swore before the European Court of Justice. Is that right?

Lord Hill: It sounds likely. Yes.

Q838 Mr Baker: Does that not explain why you cannot—as Mr Garnier was pressing you earlier—fight the corner for the British Government and the British industry? You are required by your oath and the evidence that you have given to serve the general European interest over the British interest. Is that not the case?

Lord Hill: It is absolutely the case, as I said to the European Parliament, that, as a Commissioner, my job is to try to do things that I judge to be right in the interests of the whole of the EU. That does not mean, though, that I act against the interests of any particular member state, not least this one. Clearly, to return to Mr Garnier’s point, it is perfectly possible to be alive to the interests of particularly important industries in member states— as, in Germany, I have to be aware of the interests of the Sparkassen—and to understand and to take those into account.

Q839 Mr Baker: As I said when I introduced this, I am not seeking to judge but rather to establish fact. But the fact is that your first duty is to the European Union.

Lord Hill: As a Commissioner, yes, my responsibility is to act in the interest of the EU.

Q840 Chair: You have seen today, Lord Hill, that sometimes this Committee gets quite deep into the detail. This surprised and disappointed your predecessor when he came before us, who said as much, and he implied that he had been denied the opportunity to talk in more general terms—or more discursive and expansive terms is perhaps what he had in mind. He came once but I do not think he found it a comfortable experience and he refused all further invitations. I hope you did not feel too uncomfortable, Lord Hill, and I wonder now whether I might elicit from you a pledge in principle that, were we to extend a second invitation, you might be prepared to see the same bunch of parliamentarians one more time.

Lord Hill: If you are all here, and I am still here, I would be delighted. Well, “delighted” would be hyperbole, but I would accept because I have always thought that you have to come to Select Committees.

Q841 Chair: We are going to pocket “delighted” and delete the rest from the record. Thank you very much for coming to see us. I apologise that it was somewhat curtailed, but we have Treasury Questions on the Floor of the House.

Lord Hill: I can live with the curtailment, but thank you very much.