



# Select Committee on the European Union

## Sub-Committee on EU Services

### Corrected oral evidence: The future UK-EU relationship on professional and business services

Thursday 18 June 2020

10.05 am

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Members present: Baroness Donaghy (The Chair); Lord Bruce of Bennachie; Lord Cavendish of Furness; Baroness Couttie; Lord Davies of Stamford; Lord McNally; Baroness Neville-Rolfe; Baroness Prashar; Lord Sharkey; Lord Thomas of Cwmgiedd; Viscount Trenchard; Lord Vaux of Harrowden.

Evidence Session No. 3

Heard in Public

Questions 31 - 45

### Witnesses

I: Helen Brennan, Director, KPMG UK; Simon Hart, Partner, International, RSM UK; Nick Owen, Chairman, Deloitte UK.

## Examination of witnesses

Helen Brennan, Simon Hart and Nick Owen.

Q31 **The Chair:** Good morning. Welcome to the EU Services Sub-Committee. This is the third public evidence session in our inquiry into the future UK-EU relationship on professional and business services. The session is being broadcast on parliamentlive.tv, and a full transcript will be made available to you shortly after the session for any corrections. I am pleased to welcome our three witnesses to the session: Helen Brennan, director, KPMG UK; Simon Hart, partner, international, in RSM UK; and Nick Owen, chairman of Deloitte UK. Nick also co-chairs the UK's Professional and Business Services Council.

Each member of the Committee will ask questions of you. I will start the ball rolling. How important are EU markets for your companies and their different lines of business? We have some statistics from 2018. We are interested in understanding the extent to which the UK firms in your groups also serve EU-based clients. We know that you have offices throughout the EU, but what lines of business are particularly important to you?

**Nick Owen:** Thank you for the question, and thank you for inviting us to give evidence this morning. By way of introduction, as the Chair said, I am the chair of Deloitte in the UK and the business co-chair of the Professional and Business Services Council.

Services are a really important part of our economy and, as you know from the witnesses you heard from in the previous two sessions, the panoply of different services professions operate in slightly different ways across the EU.

On the specific issues for Deloitte, it is, as you mentioned, a big firm in the UK. We have about 20,000 people based here, providing services across audit and assurance, tax and legal, risk advisory and financial advisory, and management and IT consulting. It is quite a broad array of services.

In our business model, we try principally to have a point of operation in each of our major countries and cities. As you point out, Deloitte in the UK is part of a European group—north and south Europe—that has about 50,000 people serving 27 countries and is part of a global network of about 340,000 people serving over 150 countries.

Our principal modus operandi is that we like to have our teams close to our clients, to the education establishments and to the professions inside those markets. The work that we do in the EU is not led directly out of the UK, although that could be the case for some services in some of our competitors and in other professional services, as you have heard from the legal team, et cetera.

For us, the importance of Europe is about being able to serve international clients and about the talent that we have. To us it is important, as we serve those clients across Europe, that we are able to supplement our colleagues in the market with expertise and insights drawn from other jurisdictions,

be it the UK or elsewhere. Similarly, when we are serving clients in the UK, we want to be able to draw on the very best expertise we have around the world.

To give you a sense of proportion for us, of the 20,000 people in the UK workforce, 76% are UK nationals, 9% are EEA nationals here for a long period, and a further 15% are non-EEA nationals. More importantly than the longer-term secondments in and out, we tend to move about 5% of our workforce from the UK out into other jurisdictions in any one year, and we have a similar number coming in to help on very short-term client assignments, which are often done at speed and with very little notice. The ability to move people quite freely has been very important to us.

Moving key strategic people to and from European locations not only helps us to build expertise across all those hubs, including in the UK, but leads to upskilling and accelerating the development of local talent. Our people in the UK and the EU benefit from that smooth exchange of skills and experience, and we gain critical insight into how to serve multinational clients. Clearly, in the UK, a lot of our work is with UK domestic clients, but a huge proportion of it is with international clients who want to work with people who understand that international dimension. That ultimately benefits our clients by enabling them to draw seamlessly on the widest possible range of skills that we have, ensuring that they receive the best advice, whether they are UK companies or international companies.

A big factor for us is the soft power that we get from the profession as a result. Our professions are recognised around the world. Looking across the wider sector, a strong relationship between the EU and the UK after the UK's withdrawal is, I think, important to both parties, and to all our citizens and businesses as a whole.

The UK is a strong and growing market for the provision of PBS exports to the EU, growing 41% in the last three years and delivering about €19.4 billion of advice to UK clients last year. This accounts for about 50% of PBS imports into the UK. As mentioned, in the first three-quarters of 2019 alone, UK PBS businesses delivered about €33.5 billion-worth of advice to EU clients, which is 11% up from the start of that period. That accounts for 36.5% of all PBS exports from the UK, so it is a really vibrant market. These ties continue to be strong and should be encouraged in the future relationship.

**Simon Hart:** Thank you for your question. Good morning, your Lordships. In many respects, my comments mirror exactly what you have just heard, except that my firm, RSM UK, is smaller than Deloitte UK. We have approximately 4,000 partners and staff in the UK and we are part of an international network called RSM International. In many instances, we align the work that we do for our clients internationally to our colleagues in the RSM network for local jurisdictional work.

The short answer to the question about the importance of the EU market is that obviously it is very important to us, but in the whole professional and business services sector we work for our clients. That is stating the

obvious, but if our clients are not active, we are not active. The real issue for us is how important the EU market and the rest of the world market are for our clients.

When I talk about clients, from my perspective I am talking about the middle market, so predominantly the £25 million to £500 million turnover UK businesses. We are seeing an expansion of international activities within our client base. Some 45% of our clients are active internationally, and roughly half of those are active within the EU 27. Out of interest, the single largest country that our clients are aligning themselves with at the moment is the United States of America, and that is being driven by the size of that market. We are seeing the EU as a market of growing importance for our firm, but equally we are seeing the United States as a rather important market expansion in relation to what we are doing to support our clients in their international aspirations. The rest of what Nick said I will not repeat because our experience mirrors the Deloitte experience as regards the movement of staff and secondments, et cetera.

**The Chair:** Thank you very much. Helen, I hope you do not mind, but I think it is time for me to move on to the next question. I am sure you can weave in your thoughts on the other subject areas.

Q32 **Lord Bruce of Bennachie:** Thank you for much for the insights you have given us on how flexible and varied your activities are across the piece. What risks do you face with regard to barriers that might be erected? You could talk about freedom of movement of people, freedom to establish, recognition of experience and professional qualifications—all those kinds of issues—but how much risk is there that you will find barriers erected that will damage your business? Are you satisfied that these are being addressed by our Government in the negotiations? What insight do you have about what is going on?

To the Committee it seems that the public mood is that there is a lot of political gesturing and not much information, but some of our witnesses have given us quite detailed insights, and they appear to be aware of negotiations that are not publicly available. If you have concerns, are you comfortable that they will be addressed? If they are not addressed, what will the consequences be?

**Nick Owen:** Thank you for your question. The single market for services has given us immense freedoms over our period of membership of the EU. The question looking forward is: do we really appreciate and understand the freedoms we have currently through the single market and how those will be replaced or replicated?

We have become used to a lot of things through having that freedom of movement and freedom of establishment that you talked about, which cannot be replicated in a free trade agreement alone. At the outset, we know that the environment will become more complex, involving more country-to-country bilateral engagement, and that ultimately this will force businesses—both our clients and us—to adapt. Some firms will be better equipped than others because of how they are currently structured, the

markets they operate in, or their capacity to digest change and other things.

Coming specifically to Deloitte, there are four principal things that concern us. The first is the mutual recognition of professional qualifications. It will be important for both sides to reach an agreement to allow for a smooth process for the mutual recognition of professional qualifications. Simply providing a framework that may or may not be used in the future is unlikely to be sufficient in this respect.

The second important piece is short-term movement of people to provide services in the way I described earlier. Hopefully, any agreement would include an ambitious mode 4 provision to allow people to move across borders to provide services. Ideally, this should allow for the comprehensive ability to provide fly in, fly out services across a broad range of sectors, including our own, and it should also aim to allow for intercorporate transfers, contract workers and business visitors for investment purposes. Ideally, any arrangements we agree would also seek to minimise any barriers and costs associated with the rules of establishment in the EU. Finally, adequacy is important. The free flow of data between the UK and the EU is vital for the trade in services we have talked about, as it will be for the trade in goods. A suitable adequacy agreement between the two sides by the end of the year is important.

The importance of these different issues varies depending upon the different service lines within the business. In Deloitte, for example, the highly regulated areas affected by MRPQ are audit and legal, while consultancy would be more affected by the movement restrictions on people and the ability to get people to and from clients. Broadly speaking, the more highly regulated the sectors, the greater the barriers they will experience without an agreement on mutual recognition of professional qualifications.

You also asked how they are being addressed by the current negotiations. The current proposals on MRPQ which Her Majesty's Government have suggested look to be addressing all the right questions. They seek to establish a novel system to help to ensure a swift and smooth path to the recognition of those qualifications. It would be an improvement on the existing MRPQ frameworks found in other EU FTAs, which is what are currently being proposed to us, which have rarely, if ever, been used and where clearly the process for securing the recognition of those qualifications is complex and time-consuming. Our Government also have quite ambitious positions on fly in, fly out services. I think they are asking for 90 days in any six-month period.

Finally, the UK looks to have taken very positive and early steps to seek data adequacy agreement from the EU, but we have not had a response. If something like this could be agreed, I think it would be one of the most advanced services parts of any trade agreement and would be enormously helpful to our sector. However, the big question is whether this lands with the EU and how any gaps, relating in particular to mutual recognition between the EU and UK's positions, are reconciled.

On how open the Government have been to hearing our point of view, Deloitte's experience, mainly through the work of the PBSC and our professional bodies, is that they have done a good job of setting out the position of what we need, and we believe that overall the officials we deal with have a genuine and deep understanding of the importance of professional services to the EU and the UK, and of the future trade requirements. Obviously, the final outcome is subject to political negotiations, but to date we have been encouraged by our dealings with officials and their understanding of the issues.

**Lord Bruce of Bennachie:** Could we ask Helen Brennan for her comments, so she does not get squeezed out this time?

**Helen Brennan:** The question was about barriers to trade.

**Lord Bruce of Bennachie:** Indeed, and a final point Nick Owen made, which was that our officials are very well informed and the bid is very strong, but the reaction from the other side is that we are asking for the benefits of membership without paying the subscription.

**Helen Brennan:** I work in the regulated area of audit, and that is my area of speciality. In that area, it is important to see the restrictions on who can audit companies as being driven primarily by the public interest and by the requirement for audit quality. Auditors tend to audit companies that are registered in the states where they themselves practise. That is because to do a new audit you need a deep understanding of the applicable accounting and the law and regulatory framework that applies to the entity and the business environment.

In the main, the EU statutory audit directive as it stands, which we operate within and which would then apply to us as a third country when we are outside the EU, is geared around that. It is not, as we see it, geared around protecting the market for auditors in their own countries but around saying that you need to have a qualification that gives you the skills and the experience to do that work.

I think that is well understood by the people who are doing the negotiations. The free trade agreement is intended to give a framework to achieve mutual recognition of professional qualifications, but it has to be said, and I know that you will ask further about this, that there is a limit to how much that can be achieved, because at the end of the day an auditor has to have the appropriate skills and experience to operate in the state they want to operate in.

**Simon Hart:** I am conscious of time, but I would add quickly that I am comfortable about the areas that are being addressed and considered. I am probably more concerned about the progress that is being made. We will have to adapt accordingly as an organisation, potentially at short notice, but our clients will have to adapt more. That is my biggest concern, and for them it is the potential cost at a time when, with the coronavirus pandemic, they can probably least afford it.

Q33 **Baroness Couttie:** Good morning. How effective have existing EU trade agreements been in addressing trade barriers in your sectors? I am thinking particularly of the EU-Canada trade deal. Do any of these agreements contain national reservations which, if included in a future EU-UK deal, would limit your ability to operate in EU countries? If so, could you provide some examples?

**Helen Brennan:** I have looked at how CETA, the agreement between the EU and Canada, is operating as regards audit. In the main, Canadian audit firms do not audit UK companies. Can they if they want to? A Canadian individual, if they wished to register as an auditor in the United Kingdom, even given that there is a framework in that agreement for mutual recognition of professional qualifications, would have to register with the Institute of Chartered Accountants in England and Wales. They would have to take an aptitude test, so they would still have to take some exams to demonstrate that they have the relevant skills and experience and that they understand the UK framework.

That is currently the position for a country outside the EU with a free trade agreement. There is still the same process under the statutory audit directive, whereby you have to demonstrate that you have the appropriate skills and experience. As I say, in the main, Canadian auditors do not want to audit UK or German companies; they want their audit opinions on Canadian companies that are listed on regulated markets in the EU to be recognised for the purposes of those listings. That has structural importance, because we are talking here about companies that have chosen to list debt and equity on recognised markets in other countries. Listing debt is important, because the liquidity of debt is structurally important to economies. It is right that the opinions of auditors from other countries are regarded as valid in order to continue to support those listings.

For that to happen, currently for Canada, and presumably for the UK when we are outside the EU, the audit firm has to go through a registration process with the oversight body in the other EU state. That is facilitated by agreements that are reached on the adequacy of UK audit oversight and its equivalence to EU audit oversight. Those two big decisions have to be reached first to enable us to progress with our applications to be registered third-country auditors in EU states. As I see it, that is what the position would be even with a free trade agreement in place. As I say, again, I do not regard those as being barriers to trade. They are driven principally by the need for there to be quality oversight of public company auditing in the EU, and I think we respect that.

**Baroness Couttie:** Do Simon or Nick have anything they want to add about the position outside the audit sector, particularly picking up my point about national reservations?

**Simon Hart:** I would add that the EU-Canada CETA agreement took seven years to complete. I know we are starting from closer alignment than the EU and Canada did, but it gives me some concern that we will not have a position on 1 January 2021.

I do not have much to add to what Helen has said. Yes, the audit market is far more regulated and restricted than some of the other professional services areas, but anything that will allow the increase of trade is positively reflected in what we are after. I guess the concern with any free trade agreement which the EU agrees with us is what restrictions it might place on other free trade agreements that we might want to agree with other rest of the world countries. Until we see the detail of that—I know that is a Catch-22—it is hard to comment on how that would affect our professional services sector.

**Baroness Couttie:** What about national reservations? We have heard that even within the EU, while at the EU level the regulations allow EU countries to trade freely their services, at the national level they have reservations that make it quite difficult, and each country has a different way of treating it. Are there areas that concern you regarding any national reservations that may be included in the trade agreement?

**Simon Hart:** There is the movement of people and the concern that they might impose restrictions state by state, but I am not overly concerned, given that we have a network structure, that it would affect most of the professional services firms to that extent.

**Nick Owen:** Sally Jones from EY said in her submission that, in all honesty, Canada is just basic WTO rules for services, in effect, but it has some benefits in that it goes for a negative listing approach rather than a positive listing approach: it assumes that everything is okay other than what is listed, rather than everything not being okay other than what is listed. However, it has a very long list of exceptions. In all reality, most trade deals fall very short of what you would want for professional services, particularly in the recognition of qualifications, which are typically covered in the bilateral agreements that you referred to.

On reservations, if you are interested, the PBSC's trade technical group, which Edward Braham chairs—he spoke here last week—has done some work looking at which reservations in all the EU's other trade agreements we can live with and which we can live without. There are some positives. For instance, I think it is fair to say that the EU-Japan deal is more accommodating particularly in relation to the mode 4 provisions of fly in, fly out. However, I suspect the EU will see a difference between people flying in and out of Japan and those travelling across the English Channel. It will be a case of negotiating these things.

The reality is that a deal that limits the number of reservations, and long-term work to remove as many of these as possible, would be the most beneficial to the PBS sector, and I know that is what HMG are attempting to go for in what they have asked, but the EU at the moment is somewhere different.

Q34 **Viscount Trenchard:** Good morning. I would like to go into a bit more depth on the provisions on the temporary mobility of professionals which the UK and the EU should seek to agree—in other words, WTO mode 4. We need to consider: business trips for marketing purposes; business trips for



execution purposes to carry out a mandate; the significance of when someone goes from, for example, London with someone from the Paris office to visit a French client; and short-term secondments.

To what extent are you happy that the UK and the EU proposals go far enough towards meeting your requirements? David Frost said after the last round of negotiations that the EU was not even offering what it had in the case of CETA and the Japan deal, whereas Michel Barnier is saying that the UK is demanding almost complete freedom of movement. Who is right, because they cannot both be right?

**Simon Hart:** Thank you for that question. I will avoid commenting on the Frost/Barnier comments and the politics of it. To my mind, it is pure politics and grandstanding, and I will leave it at that.

Regarding the provisions over the temporary movement of professionals, any provision that allows us to move people across any of the PBS sector, across any border, has to be beneficial for the UK economy. You heard at the top of the hour from Nick how our networks work and how we use our firms in various jurisdictions to do the predominance of our work, and that is true.

On one level I am saying that, yes, it would be beneficial. On another, we have to temper it and say that it will not be overly detrimental if the provisions on mode 4 align themselves to the Canadian CETA agreement, which I believe is 90 days in six months. For most of the things that certainly I am seeing my firm do, 90 days in a six-month period would be more than adequate. However, I could see there being issues if a management consultant, say, was doing a specific long-term project for a client in the EU that might take a year of activity. We might then see issues that would negatively affect that type of consultancy business.

The ideal would be to let us have free movement for qualified professionals. We are not going to get that, so anything that would allow temporary movement without restrictions would be acceptable. If I go to see a colleague in Paris or a client in Marseilles, I do not want to be overly delayed when getting into Charles de Galle—and I would want to be able to travel down together without restrictions, otherwise it will look a bit amateurish.

**Nick Owen:** We have talked about the importance to our firms and our networks of this top-up movement of great talent around markets. There are firms in our sector—accounting, management consulting and actuarial firms—that have business models, and it would more important to them to be able to travel to deliver a service, because they might not have as great a depth of local capability. It is critical for us, as it is for all the professions, as you heard in the previous two evidence sessions.

Regarding the EU and UK proposals specifically, and your question, Viscount Trenchard, to be honest we are yet to see the annexes that set out the Government's or the EU's position in real detail, so it hard for us to draw conclusions about the Government's proposals at this stage. The framework which the UK Government have proposed in the draft FTA is

really encouraging with respect to intercompany transfers; for long-term intercompany transfers, I think the UK has asked for five years compared to the EU's three. For the provision of fly in, fly out services, the UK Government have asked for the same as in CETA, which is 90 days out of every 180 days. As we discussed earlier, I think the EU might push back a little on that.

The UK ambition is absolutely in the right place, but obviously it depends a lot on how the EU responds to that. It is important for everyone to bear in mind that this has huge benefit for both sides. We will talk about this a bit more this when we talk about the mutual recognition of professional qualifications, because it works both ways. In the 20 years up until 2019, 142,000 people had their professional qualifications recognised and were able to move from the EU to the UK, whereas only 27,000 went in the opposite direction on a long-term basis. It works well for both sides. The people who are at the coalface negotiating these things understand that, but again it is part of a much bigger political trade-off.

**Viscount Trenchard:** I would like to explore a little more what happens when someone from London is together with someone from an EU 27 office doing some business. The person from London could just be doing liaison work, not a regulated activity, and it would be very easy to argue that the regulated activity was being done by the person from the EU 27. If that is fairly flexibly interpreted, there is less of a problem.

**Nick Owen:** The broad answer is that at the moment we do not quite know how it will look. You are absolutely right that that should be possible, and it would seem to make sense for all concerned. However, I have travelled internationally into Europe a number of times with colleagues from the US, South America and Australia, and we do not get treated the same at the border at the moment. I will be in a queue that looks more like theirs after 1 January and less like the one I currently stand in. Helen, I know you wanted to come in on something earlier. Have we covered it or not?

**Helen Brennan:** I am happy to move on.

Q35 **Lord Cavendish of Furness:** How significant are the provisions on establishment rights and cross-border investment for your sectors? What establishment rights provisions would you like to see included in a future UK-EU agreement?

**Helen Brennan:** At present, for an audit firm, it is not necessary to have an establishment in an EU member state. Looking again at what happened under CETA, for instance, a typical reservation in relation to audit is the requirement to have an establishment. If you want to be a statutory auditor in Germany, for example, and to be able to audit companies registered in Germany, you have to have an establishment in Germany. However, we would not need to do that, because we would not plan at present to start auditing German companies, as we would not consider that we have the necessary experience and the skills to do that. We need to be able to audit UK companies that have listings in Germany, but at present—again, looking at CETA as an example—we would not need an establishment to do that.

That is the same across other EU member states. We would not need an establishment to do what we need to be able to do.

I note again that some member states have a reservation requiring an establishment to provide accountancy and bookkeeping services. The question then is whether that would drive us to need an establishment in those member states. First, it is not really clear to what extent accountancy and bookkeeping might be a term of art in some EU member states. It might have a specific defined regulatory meaning or it might mean literally making any entry in the books and accounts.

Again, for a firm such as ours, which is part of an international network, it would not jeopardise our business, because in any areas where we continued to deliver a service we would have to use a networked firm with an establishment in that member state. It might be more of an issue for small and medium-sized firms that are not part of a network like that as to whether a particular service required them to have establishments, and where they might run up against whatever the barriers are to having such establishments.

**Nick Owen:** As Baroness Neville-Rolfe will remember from her time as my ministerial co-chair on the PBSC, for firms like ours and KPMG, as Helen has described, it is probably less of an issue, but for a whole host of professional services firms, inside the accounting and auditing profession and beyond, it might be a big issue if they do not have points of presence in those other markets.

Similarly, there will be some structures whereby—I think you heard from Edward Braham from Freshfields and some of the legal team last week on this—many of the legal partnerships in Europe are set up under a UK LLP, which means that they have people delivering services locally who technically work for a UK partnership, and they have had to put different things in place to carry on doing business. That could be the case for many other people. If you have no people already in Europe and you serve your clients by flying people in, that is the only category for which setting up new establishments and creating subsidiaries, branches or hubs in new geographies where they do not have them at the moment would become a big issue. Simon, would you agree?

**Simon Hart:** I would. The point you make is probably more relevant to the London-centric law firms at the moment.

The only other point I would add is about the driver of any changes within the EU in the future in changing the risk appetite of UK professional services firms in doing business across the EU. For example, it might be less risky for us to create a permanent establishment within one of the jurisdictions to ring-fence any risk and mitigate any liabilities. I agree with everything Helen and Nick have said.

**Lord Cavendish of Furness:** The sectors you represent involve quite a lot of SMEs, although that probably does not apply to you, Mr Owen. However, as somebody who has spent all his life in the SME sector in some

of the hardest markets in the world, I would like to ask how confident you are that the sectors we are dealing with have the flexibility to get round problems. I find that my life has always been about dealing with a problem every morning, and one needs that flexibility, especially in the SME sector. How much of the SME sector is threatened by this change?

**Simon Hart:** One of the strengths of SMEs and the middle market of the UK is exactly what you say: their ability to deal with problems. Compared to larger organisations, they are more agile. They have to be. That is the only way they can survive and create a competitive advantage. In many instances, owners and managing directors of SMEs will say, "We'll take it as it comes. There's no point in us overanalysing what might be at this stage. We could waste a lot time, effort and money for no good cause at the moment, so we'll wait and see and we'll react and adapt accordingly"—and they can react pretty quickly. I have some concerns about that, but I think they will react and adapt.

Q36 **Baroness Prashar:** Good morning. My question is about mutual recognition of professional qualifications. How important are the arrangements on mutual recognition of qualifications for different professions in your companies? Can you give some examples? I would also like to hear your views on the Government's proposals on mutual recognition of qualifications.

**Helen Brennan:** For audit, our audit qualification in the UK is recognised and will need to continue be recognised as being equivalent to the requirements in the EU statutory audit directive. That is the foundation of any registration that we might seek in the EU. To give you an idea of where we need it, at present our firm will need to register with six EU oversight bodies in order for our audit opinions on UK companies with listings in those six member states to continue to be valid for the purposes of those listings.

Essentially, the first question on the application form is whether the people who will sign the audits have a qualification that is equivalent to the requirements of the statutory audit directive, and then whether a majority of members of the management board—the control of the firm—also have an equivalent qualification. Given that as of now our qualification is equivalent, there is no reason why it would not continue to be as of 1 January. Clearly, there is a mutual will on both sides for that to be the case.

Looking at what has happened in other cases, this does not seem to be an area where there needs to be EU-wide consensus; rather, it can be agreed on a state-by-state basis. With Canada, there were Commission decisions on the equivalence and adequacy of its audit oversight body, which enables it to audit UK companies, say, or companies with a listing in UK. However, there was no need for such a decision on their qualification as to it being fundamentally adequate and equivalent for them to be third-country auditors, again, as auditors of Canadian companies with listings in the EU. I would expect that to happen regardless of the framework in the free trade agreement. It is set out in the statutory audit directive that that agreement needs to be reached, and the expectation is that it will be reached.

In relation to the other kinds of services we offer, the majority of them are unregulated and therefore, to be frank, require no professional qualification at all. Many kinds of consulting, even consulting on transactions, require no qualification, so the qualification itself is not regulated. However, the framework for mutual recognition in CETA does not eliminate all need for other checks. If, for example, a Canadian auditor wants to be able to audit a UK company, they would still have to take exams, pass an aptitude test, to do that, so it does not smooth out all the corners.

**Nick Owen:** I will not repeat what Helen has said, but will just build on it. The highly regulated services of audit, which Helen has covered, and legal, which you covered last week, are particularly affected by it, but, as she says, the other the services are less of a concern from an MRPQ perspective. For the PBS sector as a whole, it is an important issue to understand, and I think the request from all the professions would be to have a fair, transparent and consistent MRPQ framework under any free trade agreement, including the possibility for a joint committee to make changes to that MRPQ. In our discussions with government, we have asked it to maintain its ambition under the level of mutual recognition of qualifications, and certainly in the UK legal text that was put forward we were very pleased to see that that had been part of HMG's ambition.

The UK text, however, goes significantly further than the EU text on MRPQ, because the UK is seeking mutual recognition to be the default position, with clearly established administrative processes by which individuals and regulators can demonstrate the robustness of their qualifications. By contrast, the EU has set out quite standard language for a framework for future mutual recognition agreements, as it calls them—MRAs. It is worth noting that not one of the MRAs that has been agreed by the EU in other frameworks has ever been negotiated with its treaty partners, as was mentioned earlier. The purpose of such a framework would be to facilitate the negotiations of new and binding MRAs between the relevant authorities of the host jurisdiction, but the process of setting up and recruiting to such committees must be done in a fair and transparent manner.

One of our concerns with the EU text, if ultimately adopted, is that it might be a worse position, in that it might prevent the UK and individual member states coming to agreements outside the FTA, as Helen referred to. In other words, we want to avoid moving the competence for agreeing those MRAs from individual member states back to the Commission, because it might prevent UK professional bodies and their regulators from concluding bilateral or multilateral MRAs. That could be particularly damaging and one of the few examples where a bad deal would definitely be worse for our sector than no deal at all.

**Simon Hart:** I will add briefly to the issue of how important it is. Any barriers or restrictions because of non-mutual recognition will impact on an individual's or business's appetite for future UK investment, so anything that will negatively affect our ability to service UK businesses will lead to greater complexity and costs for businesses. Aligned to the ICAEW's view, I feel that an EU-UK scheme of comparable recognition has to be a priority.

**Baroness Prashar:** What you are really saying is that our Government are holding out for a better arrangement, and you would favour that.

**Nick Owen:** Yes, definitely.

**Baroness Prashar:** For the sake of argument, if there is no mutual recognition, will it be possible for professions to negotiate between themselves?

**Nick Owen:** Sorry, perhaps I did not explain it particularly well, but that is what I was saying. At the moment, if there is no deal, the UK and each member state will have to negotiate with each of the professions what we will do. Indeed, I think I am right in saying that the Royal Institute of British Architects already has that in place with the respective architectural regulators around Europe. The worst thing that could happen for it would be to have the EU framework which the EU is currently proposing that could get us caught in a traffic jam with no end.

If the UK can achieve what it has asked for, it would be the best solution, and a really good outcome for the professions. If we get stuck with what the EU is currently offering, that would probably be worse than having no agreement at all; it would be better to go back to doing bilaterals. You would hope, as I said earlier, that this would be an area where people would see aligned, mutual self-interest. As I said, in the 20 years to 2019, the UK recognised the EU qualifications of 142,000 lawyers, social workers, accountants, engineers, et cetera, but only 27,000 were recognised the other way, so it definitely has benefit for both parties.

Q37 **Lord Sharkey:** May I continue with exploring the possibility of no deal? I have read both the Government's current advice, which is helpfully entitled "Find out what to do if you are an auditor", and the Commission's notice to stakeholders. They both seem to consist largely of a list of things you will no longer be able to do after 1 January, and a suggestion that you talk to local registration authorities.

In practice, what support, including any easements, would you like the Government and the EU to put in place if an agreement appeared to be unlikely? Perhaps you could say what lessons, if any, can be learned from the contingency preparations made by the Government or the EU for a no deal?

**Simon Hart:** Thank you for that question. I guess the main support I would like, if it looked as though no deal was likely as we approached the year end, is, perhaps controversially, an extension of the transition period. Leaving us all without any form of agreement will not be helpful for UK plc. The Government issued over 100 technical notices in the lead-up to 29 January, and they were updated on a daily basis. When I talked to businesses, I said, "Have you engaged with these technical notices giving you advice about the implications of no deal?" Those that had engaged said, "In many instances, they tell us what we already know, which is that, "More information will be coming, we don't know when, and it could mean this or it could mean that"". They were not particularly helpful to a lot of the middle-market SME businesses I talked to. I have a concern that we

will get closer to December and we will have no clearer idea about what we should be expecting in January, hence the rather flippant opening statement about an extension to the transition period.

An easement that could be considered, if we were thinking of a couple of examples that would be helpful in the short term regarding moving people around our international network, is perhaps some help with visas and immigration for professionals who are coming into the country or going out to other jurisdictions.

**Nick Owen:** I will build on a couple of points there. I agree with everything Simon has said. Regarding practical things that we would look for, assuming the scenario of maximum change, with an exit without a deal at the end of the year, I would ask the Government, first, as Simon said, to ensure that our immigration system is generally fit for purpose and that it specifically facilitates temporary mobility for professionals into the UK for short-term business travel.

We should retain our recognition of EU judgments pending Lugano membership. I know you talked a bit about that with the legal team last week. We should extend recognition of European professional qualifications until mutual recognition agreements are finalised. We should continue to push for adequacy and equivalence decisions, particularly on data adequacy, as a most important point, to allow the processing and flow of personal data to and from the UK and the EU after 1 January.

As Simon said, more broadly, we are here to serve our clients, and no more than that. Without clients we are nothing. The more businesses are confident about investing in the UK, growing their businesses here and expanding and doing things here, the more we will be needed to help them do that. Measures to support the resilience of the wider economy and mitigate any potential shocks would in turn have an indirect impact on PBS firms generally, particularly our firms, because we are generally as busy as our clients are, so a resilient wider economy can help them remain busy.

**Helen Brennan:** To demonstrate the timeline that we are up against, a structurally significant audit, a United Kingdom registered company—a bank—might have listings on regulated markets in two other EU member states, and a December year end, so it will probably want to file its accounts with those markets in the EU in March. By the time we sign the audit in March 2021, we need to have completed our registration as a third-country audit firm with any of the markets that need to receive and recognise the validity of that audit report.

In theory, the application process cannot officially start until 1 January 2021, so we will end up with this three-month window where we have to conclude on the equivalence and adequacy of the UK's audit oversight, and then the actual approval process for any firms in that approval process. Of course, it will not just be KPMG in the same boat; all the other firms with audits will have made the same applications. You will have oversight bodies around the EU with a pile of these applications to get through. On top of that, the Commission needs to make decisions on the adequacy and

equivalence of the oversight of the Financial Reporting Council in this case. That needs to be mutual, because the statutory audit directive requires that there is mutual agreement between the oversight bodies. That is a big ask to do in three months, as far as I can see.

What could be put in place? I have to say I do not know what is practical. It would be wonderful if, for example, it could be decided that were there to be no deal at the end of December that these requirements would kick in for accounting periods beginning on or after 1 January 2021. That essentially moves it down a calendar year, because your December year end, which is critical, becomes December 2021, and it will give us a year to do it.

How do you agree that? Presumably it would need the buy-in of all the recognised markets in the EU, so agreeing that might be no easier than agreeing a deal. It is a bit of a challenge for us, but I believe there is great mutual will on both sides, because it is in everybody's interests for us to continue to be able to move corporate information around, and for that to be trusted information, with audit reports that everyone agrees have come from valid audit firms doing a quality job.

**Lord Sharkey:** That is very helpful.

**Q38 Baroness Neville-Rolfe:** Are any of the financial services equivalence decisions—I think there are about 40 of them—that are being considered by the EU and the UK important for this sector? What would be the implications for you and your clients if either the Commission or the Government did not adopt these decisions in the next few weeks? I think they are due in June, but I suspect it will be a little later than that. I am particularly interested in the impact on small business as well as bigger business, so I look forward to hearing particularly from Simon Hunt on that, but Nick, it is great to see you again, and I am glad that the PSBC is still going strong, so would you like to start?

**Nick Owen:** As to the framework, the Committee will have heard the views of the FS sector on the importance of equivalence through its previous inquiry on financial services and Brexit in the run-up to this period.

Overall, from my perspective, professional services welcome the Government's position on equivalence. It is important to note that, while financial services are a significant proportion of the UK services sector, there are wider associated and supportive professional services firms and smaller businesses that rely on them. Are the equivalence decisions being considered important for us? Yes, but the primary reason for that "yes" is they are such an important part of our client base.

As I said regarding the broader economy, if there is a lack of confidence in the UK as a place of financial services and as a result there is an atrophy of the amount of investment going into London, and a number of regional cities, from a financial services perspective, that will have a corresponding knock on to us. It is more about the impact on them as a client base than it is on how we get regulated, I think it is fair to say.



Having the stability and clarity that an agreement here would bring is important to the financial services sector, and by extension to us, and to any of the other firms that rely on large financial services firms in their locations. There could be broader economic impacts to other businesses and support communities that have a large financial services base. Simon, I think you want to pick up on the point about small and medium-sized businesses.

**Simon Hart:** The financial services sector is a broad church in the UK and it is such an important sector to the UK. What you have just said, Nick, is also applicable to the smaller regional-based entity that is dealing in the financial services business. The Government's position on equivalence is certainly very welcome, but that is because it is promoting financial stability in the UK, and the integrity of our financial services market, for large businesses and small businesses. It is vital that this is dealt with, because it will have an impact across the complete spectrum of business.

**Baroness Neville-Rolfe:** Helen, did you want to add anything?

**Helen Brennan:** In relation to financial services regulation?

**Baroness Neville-Rolfe:** And if there are particular equivalences you are worried about. I am conscious that there is a great barrage.

**Helen Brennan:** It is about audit oversight in particular. There has to be an EU decision on the equivalence of audit oversight in the UK. Under the current statutory audit directive, which is not overwritten by the current draft of the free trade agreement, that would have to be reached by the Commission as a whole, not through bilateral agreement, and there would have to be an agreement as to the adequacy of the ability of the UK oversight body to co-operate in relation to the handling of audit working papers of other member states' audit firms. Both of those are fundamental to us agreeing to a situation where there is no need for double regulation.

In a scenario where that has not been agreed in theory for audits of companies that are registered in one member state and listed in another, you end up with two interested oversight bodies wanting to regulate, and they might want to inspect and make decisions and possibly impose sanctions. Wherever you have two oversight bodies involved, there is grit in the wheel. It takes time and there is inefficiency. There is also the question of how it looks. If we want audit to be respected and trusted, and to be in the position where it is clear that audit regulators trust each other to do a good job, that contributes to the overall picture. If we are in a position where audits have to be regulated by multiple bodies, my feeling is that that could contribute to a gradual erosion of trust in the audit itself, and I do not want to see that.

**Baroness Neville-Rolfe:** Thank you all very much.

Q39 **Lord Vaux of Harrowden:** Before we go much further, I perhaps ought to declare that I am a chartered accountant.

Following up on Helen's comments on regulatory co-operation, how

important is UK-EU regulatory co-operation in accounting and, indeed, in other areas for your firms—you have touched on auditing? What form should the regulatory co-operation take, particularly as we lose our seat on the Committee of European Auditing Oversight Bodies?

**Helen Brennan:** Co-operation up to the point of us agreeing equivalence and adequacy decisions is critical, and, of course, we believe that that co-operation will be there because of a mutual will. As you say, we will lose our seat at the table on the forum of oversight bodies. That should cause us a pang, because, while we read and hear lots of negative things about audit, I believe that the UK has been a leader and an instigator of improvements in audit quality and consistency. Over the two decades that I have worked in audit, I have seen that in practice, and it would be really sad if we were to lose influence, and respect, in that area, and therefore to have less of a position on the global stage.

As I know Simon and Nick will say, there is a much bigger picture here, and the question is how we maintain global audit quality across the Atlantic as well. We would want to see the UK audit regulator, supported by the UK profession, playing its part there. It is not clear to me that there is an easy answer to that.

**Nick Owen:** Picking up on something Helen said, obviously the bulk of accounting standards are now set globally. The UK has always been quite a strong and influential voice in the setting of both accounting and auditing standards, and in pushing for the adoption of a much more international mind-set. It is important to consider why that is. For a significant proportion of UK companies listed in London, if not owned by overseas investors, a lot of their turnover comes from overseas. UK investors own a significant investment in international businesses. Given current cross-border ownership, we would encourage continued convergence between the UK and the EU 27. At the moment, both are relatively consistent on accounting, but if they were to have separate endorsement mechanisms, as Helen said, it may result in differences.

On auditing, the position is slightly different, because currently the UK has slightly more extensive auditing standards than many of the EU 27 countries. We have auditing responsibilities in key areas such as going concern and viability, and they respond to the incremental UK requirements on companies being audited. We also have slightly stronger independence rules for our auditors than they do in the rest of the EU.

The EU has been particularly active in other areas. In the tax field, for example, it has been very active on tax policy and issues such as anti-avoidance, which I think we all welcome. Historically, the UK has been a very practical voice of reason in those debates as we try to reach consensus across the EU. As Helen said, it is important for us that the UK retains its position of influence in other areas, such as the OECD, the G20 and the base erosion and profit sharing—BEPS—work on tax avoidance going on globally. I guess the big question for us is the extent to which the voice of EU policymakers will miss input from the UK, and whether the UK's voice

alone on the global stage is still heard as well as it has been to date. That is the important consideration from my point of view.

**Simon Hart:** Helen and Nick have covered all the aspects on that question. I have nothing to add.

**Lord Vaux of Harrowden:** Is there an opportunity for us to take a bigger role internationally if we are decoupled from the EU, or is that pie in the sky?

**Nick Owen:** You can never say never on these things. It is possible, but it is harder to see how our voice gets heard in quite the same way as it is at the moment in the way the structures are set up. Helen may have a different view.

**Helen Brennan:** I think we might have a vision, but we would be guessing as to how it will turn out. What does the future hold? Is it sustainable on a global scale that accounting is essentially moving in two directions, with the US GAAP framework versus IFRS? Will that come together at one stage, and, if so, what role will the UK play in that?

Similarly, with the auditing standards, the biggest differences are not currently, or envisaged to be in the future, between the UK and the EU but between Europe, including the UK, and the United States. What will we see happening there? Some of the investigations into audit have looked at one key difference between the UK and the US, which is that the UK does not have reporting on internal controls like they do in the US—the SOx requirement. What will happen there, and with those changes what role will the UK play? Like I say, you could have a vision as to how it will turn out, but it would be guessing.

**Simon Hart:** Sorry to ask you a question, Helen, but added to that, what do you think is the rest of the world's view of our regulatory standards, not just in audit but in the financial reporting standards that we have adopted here?

**Helen Brennan:** At present in the UK, we use EU-adopted IFRSs and our UK framework in most cases. Although it is the financial reporting standard applicable in the UK standard, it is effectively the same as EU IFRSs, and as of 1 January 2021 that position will be the same. Even if at that point we call them UK IFRSs, they will be identical, and the question then will be whether divergence will come in, and, if there is divergence, how that will be treated by the global community.

If the UK diverges from the EU and towards the United States, there is potential tension there; you might say that there are reasons for us to move closer to the US in some respects and away from the EU. However, there would be a lot of thinking about that, and there are people who are closer to the decision-making on accounting standards who would be able to give you a better steer on what might happen there and what the view would be of it. As of the present day, certainly the UK's approach to accounting is as respected as anywhere else's.

Q40 **Lord McNally:** Nick Owen has twice in reply to earlier questions stressed the importance of the data adequacy arrangements. To this Committee and to earlier Committees, the Government have always said that it will be all right on the night. Helen has stressed that it is to such mutual benefit that we will get agreement. However, what if we do not? What arrangements can be put in place if at the end of the transitional period there is no data adequacy agreement? In particular, what workarounds, if any, could be put in place to mitigate any implications, and how costly might they be?

**Simon Hart:** You have hit the nail on the head, because I do not think that "It'll be all right on the night" is a sufficiently good answer. Data is a huge issue for us all, particularly in the professional services arena. There is such a flow of data, and the implications of adhering to GDPR requirements is onerous. We have all spent money and increased our protection for data privacy as a result of that.

The Government have said in previous negotiations things along the lines of, "We will allow data to flow to the EU as it is now", but I do not think that has been reciprocated at this stage, and it is a real concern. In a UK audit, for example, where we are auditing a subsidiary of an overseas group, there will be a flow of data from the UK to the EU, to the group auditor. If we are not following the provisions under the current GDPR registrations, we will have real issues there. There could be workarounds around contractual agreements, no doubt, but there is a cost aspect and a bureaucracy aspect to that.

To summarise, yes, there could be workarounds, but they will not be as cost-effective as what we have at the moment, and this needs to be dealt with as one of the priorities of the negotiation.

**Nick Owen:** As Simon said, data flows are integral, and it has probably never been more evident than where we are today, staring at this screen, and how we have all been working for the last 12 weeks. A lot of what we used to do by travelling somewhere else to do it we are now doing electronically, and that is all data that is moving around.

In the context of leaving the EU, as I said earlier, data adequacy is not dealt with in the free trade agreement but outside it, and the UK has sought an adequacy decision from the EU. As I understand it, it is not without its challenges. I think the concern on the EU side is how the UK uses personal data when it comes to issues of national security. These are actions which the UK has flexibility to pursue while a member of the EU, but as soon as we become an adequate third country we may face more restrictions or scrutiny.

It is a rather bizarre situation where we might have been completely compliant because we were a member, but because we dropped out of the club, although nothing else has changed, some of the things we do are not quite as palatable to our colleagues and partners in the EU. Nevertheless, as was pointed out, this is an area of such obvious importance to both sides and one where the EU has committed to keeping GDPR regulations and

that framework, that we are hopeful that both sides' need for data adequacy decisions can be satisfied.

You asked what the workaround is if we get to the end of the evening and it has not been all right on the night. Larger entities across the economy, particularly firms like Deloitte, have spent quite a lot of time putting cross-border transfer agreements in place that already allow transfers in and out of the EEA. Extending those to the UK-EU 27 transfers would be needed, but it is not an insurmountable problem. The historical situation has seen the transferring of data between Europe and the US or Canada or the Asia-Pacific region, et cetera, and it is just a case of taking the agreements that we already have and including the UK in them.

The main concern for us would be the level and complexity of any work that may be required if large swathes of our existing contracts needed amending or adding to in order to accommodate any sudden changes in the regulation of data. I think that the introduction of GDPR, while very painful, was a good thing on the whole, and we could see that come together.

However, a lot of standard contract clauses were put in place, which put quite a big administrative burden on companies to change all their contracts. The more firms you do business with, the more those contracts become effective. Businesses in the EEA will need a specific legal transfer agreement in place for transfers of personal data from the EEA to the UK. This could be quite onerous for EEA entities that send data to multiple entities in the UK. Also for transfers within large corporates, companies can seek approval for binding corporate rules—BCRs—from the European Data Protection Board. However, approval can take many months, or even years, to achieve, and you would need to get going pretty quickly to have them in place on 1 January.

As pointed out earlier, there is perhaps a bigger risk for smaller entities that have sent data between the UK and the rest of EEA before, but perhaps not outside the EEA because they have had no practice outside the EEA. There is a worry that some will hold out for an adequacy decision and will then have to rush to change their contracts if that does not arrive.

We can also see in a no-deal situation the UK Government enabling data flows from the UK to the EEA but restrictions being imposed on the transfer of data from the EEA back to the UK, potentially forcing the EEA data protection authorities to take action against some of the EEA firms themselves. The worst-case scenario is a gradual grinding down of the ability for data to flow freely, which could penalise people on both sides—the UK and the EU.

**Lord McNally:** That is extremely worrying, especially for small businesses. We have been told that the ICO has given advice to small and medium-sized companies doing specific EU-approved deals. You mentioned security; Theresa May intervened on criminal co-operation, very unusually for an ex-Prime Minister, and indeed on security co-operation.

It seems a whole lot more complicated than when we were being assured about this. I was involved in the negotiations on GDPR and I have been on a Committee that took evidence from Ministers since its introduction. It has all been wafted away. It was said that we were so important to the Europeans that they would be looking for the piece of paper to sign up on. Now we find that it is extremely complex, and that is very worrying at this stage in the negotiations.

**Simon Hart:** May I add to the comment about small and medium-sized entities? Nick is absolutely right about the actions that Deloitte has taken, and that is fine, but smaller firms—there are 76,000 accountancy firms in the UK, some of them very small—will not be able to get themselves compliant with any new regulations, or make any proactive actions to the same extent as large organisations. The same applies to businesses themselves and whether they will be able to understand the new regulations or the implications of not having GDPR regulations continuing under an equivalent status. That is a real concern.

**Lord McNally:** Thank you very much.

Q41 **Lord Davies of Stamford:** Mr Hart, you were saying earlier that you were not very inclined in your firm to advise, and the implication was that you would not advise, your clients to go in for a lot of contingency planning before they know what the outcome of the negotiations will be. That seems very reasonable, particularly of course for smaller companies, because the cost burden of doing that might be excessive.

Presumably it is possible to see the main lines and the difference of the structures that might emerge if, first, we have an agreement along the lines of the one that the Government are trying to negotiate, or, secondly, we have no agreement at all. Can you say a few words about how the world would look in your field if there was no agreement at all? What would the consequences be? Would there be more people establishing subsidiaries on the continent or expanding those subsidiaries? Would the growth in employment in your sectors tend to be on the continent rather than here, or do you think the structure would remain pretty much unchanged?

**Simon Hart:** Thank you for that question; it is a fascinating one. The advantage that the wider professional business services sector has is that we can be particularly agile when we need to be. I think we can adapt accordingly to amend relatively quickly our processes and our requirements for experts and staffing and subject matter specialists.

On the issue of how we structure our own businesses, we have our international networks, as you heard earlier. I do not see that we will structurally change our firms, particularly if there is no deal, but there will no doubt be some implications. The bigger aspect is what will happen to UK businesses. We are currently the second largest economy within the EU—or we were—behind Germany, and we are still a major destination for foreign direct investment, particularly from the United States.

The question is whether that is likely to change. Will the United States still come directly into the UK or will it go over to the continent? There are other

issues over and above us leaving the EU. There is the language barrier. There is the perception of the stability of the UK regulatory environment compared to other jurisdictions.

I am hopeful that even if we have no deal we will still see a flow of inbound investment into the UK, particularly from the United States, because we are a big market in our own right, but we will have to adapt according to whatever happens to our client base, particularly at the middle-market level. If they contract, we will have to do the same. If they expand, we will expand. It is really hard to say. That is probably one reason why, although we have been advising clients to think about scenarios for contingency purposes, many of them do not follow that advice, because, as I said earlier, you could spend a lot of money for no benefit and you might have to change decisions that had been made previously. The best piece of advice we can give to businesses, and we can take it in the same way ourselves, is almost to hope for the best but plan contingently.

**Lord Davies of Stamford:** You do not think that, if there is no deal, people will decide to build up the capacity they have somewhere in the European Union so that they can use that particular business, which might be based in Paris or Amsterdam or wherever, to service the whole of the EU where there are no restrictions on flying in and flying out and other things you want to do, rather than expand the business here to cope with demand from those countries.

**Simon Hart:** Because we have an international network of independent member firms in those countries, we would not expand into those jurisdictions anyway, but those firms would benefit at our cost, effectively.

**Lord Davies of Stamford:** That is what I mean. They would be expanding, in other words, and you might be contracting here in London. That is exactly the point about structural change that I was interested in.

I am also talking about the national interest, and part of the national interest is employment. You guys have a lot of demand for highly intelligent, extremely well-trained people, and as a result you have a worldwide reputation. We want to ensure that future generations of young British people have the same kind of scope and the same opportunities when they leave school or university to have an interesting career in what are often highly paid jobs in your sector. That was what was behind my question. Will there be more of those jobs if you are living on the continent than if you are living here?

**Simon Hart:** Given the size of our economy, I would hope that we would still be a very strong and buoyant professional services industry in the UK. Nick will probably be able to tell you how many graduates and school leavers Deloitte takes on annually. It is an astonishing number. The employment figure for wider legal and accountancy firms in the UK is something like 740,000 people. The contribution to the UK Treasury is something like 2.4% of the tax take. We are the unsung sector of the UK economy and a very strong part of it. I am confident we will adapt.

**Lord Davies of Stamford:** Mr Hart, I am sure you will adapt, and I am confident that you will have a continuing and thriving business, but it is the relative point I was trying to get at. Is there likely to be more growth on the continent and less growth here compared to the position that we currently have?

**Nick Owen:** You raise a really good question and it is worth focusing on it. As Simon said, we have approximately 4.1 million people in the UK who work in the broader professional services sector, and it has been growing consistently higher than any other sector of the UK. I should add that 61% of those people are outside of London and the south-east, so it is not a London-centric piece but across all the regions and nations of the UK and is about 11% of our total GDP at the moment. It is a big contributor and a big employer, as you say.

Most firms and organisations in the country have taken a variant of what Simon said for their planning assumptions. We say that you should plan for the scenario of maximum change, and you need to look at all these things because we are not quite sure which rackets in the negotiation will land the way the UK Government want them to and which ones will not. Lots of people have done that planning. As you mentioned earlier, it is clearly easier for big companies with more resources and capability to engage with that sort of debate and understand it, and make changes, and smaller companies probably are leaving it more to the last minute, for obvious and relatively good reasons commercially.

The question for professional services—I go back to the point about us being here to serve—is that if the economy grows more quickly in the UK than it does on the continent, our firms in professional services will grow more quickly here than they do on the continent. If, overnight, businesses around the world stop investing and doing things in the UK and put all that money into doing things in Europe, the professional services sector will adapt to that agilely and quickly.

We will find that offices in Europe start to grow a bit more quickly than perhaps they did in the past, relative to the UK. It is about the broader economy, and if that slows down it will have consequential effects for professional services because we are here to serve them. I have not heard of firms that are thinking, “We’re now going to move capacity from the UK to another market”, or “We’ll invest in capability X somewhere else”, but they will start to think about that. We already make our investments on a global basis. Smaller firms may do it on a regional basis, and they will start to build certain capabilities in different markets closest to the market they serve, or to other colleagues who provide that ecosystem for them.

**Lord Davies of Stamford:** They are more likely to be thinking along these lines if we do not have an agreement with the continentals. Is that what you are saying?

**Nick Owen:** The harsher the agreement with the EU, the more favourably the mind-set of all businesses will be in looking at other parts of the EU.



They might see different things coming from the UK depending on how we explore our position in the world post an EU.

**Q42 Lord Thomas of Cwmgiedd:** I wanted to turn to a slightly more technical area and ask you about arrangements in relation to the recognition of judgments between us and the EU and vice versa. I do so in two capacities. First, some of you are quite large legal businesses, hoping, obviously, to grow in that area. Secondly, and as importantly in the current circumstances, there is the question of insolvency proceedings, which are quite often excluded from international recognition regimes. I do not know who will answer, but on both those aspects may I ask you to comment on what you would like to see by way of reciprocal recognition both of ordinary judgments and insolvency proceedings and of the impacts that might have on your businesses and those of your clients?

**Simon Hart:** I drew the short straw on that one, I am afraid.

**Lord Thomas of Cwmgiedd:** It is a very short straw, because it is very technical.

**Simon Hart:** I have to declare that I am not an insolvency specialist or practitioner, so you will have to bear with me on this one. When I have spoken to insolvency specialists in my organisation, this area of recognition of judgments in the event of no deal is of concern to them. Why is that? In a nutshell, let us just say that it would be extremely difficult in an insolvency case here in the UK to recover assets in a foreign jurisdiction. That would be one of the implications.

The other aspect of concern about the recast EU insolvency regulation is jurisdiction. This is to ensure that a court in one jurisdiction will recognise the appointment of an insolvency practitioner in another jurisdiction. Without that, there will be a real issue over the additional costs. Perhaps we will see only large insolvency claims being taken internationally. We might see a scenario where different creditors have different claims over assets at different times. It will not be helpful to stability and confidence in business trade if we have different creditors taking different views on the scenario. This is a really important aspect, and I do not believe it is getting much media air time. In my view, we should be pushing for the current EU framework, through the recast insolvency regulation, to have some form of equivalent status in these negotiations.

**Nick Owen:** I think you will find us all slightly nervous when talking about judgments with a former Lord Chief Justice, but, as you say, we, like KPMG, have a legal business. Ours is relatively new compared to theirs but is growing very rapidly. A bit like the rest of our model, we have legal practices in most of the jurisdictions that we operate in. In fact, in many of the countries, the service line that we know as tax and legal is known as a legal business in that jurisdiction because of the qualifications for those professionals. This is an important area for us. I think you heard from Simon Davies of the Law Society, Edward Braham and others this time last week about the importance of those judgments from a UK law perspective, so I do not think I have anything particularly to add over and

above what Simon and Edward presented last week from the perspective of our law firms.

Simon has done a good job of covering what it means for our insolvency businesses. The broader piece here is that the highly developed insolvency and restructuring industry that we have in the UK is in part down to the significance of the City of London as a source of finance for European domiciled companies, and the fact that a significant amount of complex international banking facilities and financial arrangements and instruments have originated in London. That has given us a unique position within a professional services ecosystem. Over many decades, I guess, the insolvency laws and regulations that have developed have done so to facilitate the smooth handling of troubled companies, hopefully for the benefit of the economy. In a positive and thriving capitalist society, businesses fail. That is part of what limited liability and risk is all about.

The importance of having smooth ways to facilitate the efficient administration of those insolvency cases is important. Looking forward, European co-operation will be very important in facilitating that efficient administration of cross-border insolvency, and in continuing the recognition of the UK insolvency process post our leaving the EU. That will include the judgments of UK company courts on insolvency cases and will be important to help preserve the role of London as a major financial centre. Failure to recognise that and to deal with it could make the insolvency process across Europe much more difficult to navigate, I suspect.

**Helen Brennan:** I am not an insolvency specialist. If it would help you to get written evidence specifically on this, I am sure we could supply it from one of our specialists.

**Lord Thomas of Cwmgiedd:** There are two aspects to it. First, of course, the UK has been quite creative in finding ways to reconstruct companies with arrangements already developed here. Secondly, this is an area that does not seem to have had the prominence that some other areas have had, and which, of course, is very important in the current economic conditions.

**The Chair:** Are there any other points you want to make in answer to Lord Thomas's comment?

**Lord Thomas of Cwmgiedd:** None of them is an insolvency practitioner and they fear to tread in that area.

**The Chair:** I think we should take up Helen's offer of a written submission, Lord Thomas. Do you think that would be a good idea?

**Lord Thomas of Cwmgiedd:** I think so, because it seems to me that it is an area that has been neglected, and it has important consequences, given the huge amount of time even this House is spending dealing with the issues relating to corporate insolvency, and the way in which businesses are today organised on a multinational basis. It would be very helpful if

you could, as it would if the others looked over the submission as well.

**The Chair:** As one of the witnesses said, if we can give more media coverage to this, that would be good. That concludes the questions of which you have been given notice. We have three supplementaries. The first is from Lord Bruce.

Q43 **Lord Bruce of Bennachie:** I want to follow up Lord Davies's line of questioning, which Simon Hart gave some answers to, about the disruptive effect of this on UK plc. Am I right in saying that if we have either a hard exit or no deal, quite a lot of small practitioners will either go out of business or will withdraw from that sector of the business, and the big practitioners will tend to shift their centre of gravity to the centres they already have established in the EU?

What is the range of best and worst impact on UK plc on jobs and revenue? I do not expect you to be precise. Is there also a risk that in reality, even if we have a bumpy ride, eventually things will settle down but the problem will be that in the process of settling down people will make decisions that will subsequently be irreversible? How big a risk is that? For the Committee, it is not just what it does for your businesses—as you said, Mr Hart, you will adapt, but that adaptation may not be good for Britain.

**Simon Hart:** Let us assume that there will be a disruption in the event of no agreement at the end of the year and look at the impact on small practitioners.

As you have heard a number of times from the three witnesses, the impact on us as firms will depend on what happens to our clients. A small high-street practitioner or a small regional firm will be impacted immediately by what their client base is doing on the ground. If they are predominantly UK domestic traders, from one angle the impact may be limited, but it depends on what their client base is seeing with their customer base, or indeed on how costs are rising within their supply chains. There are potential unintended consequences here in that we might not see it in the wider professional services arena for six months, 12 months, 18 months after mainstream manufacturing businesses, et cetera, see it. There could be an impact delay for us before we can assess and answer that question.

Also, there could well be consolidation in the accountancy marketplace. We have seen the consolidation of our profession over the last 20 years. That has been driven by lots of other reasons, including economies of scale and the forms of investment needed to be competitive on a national and an international basis. I do not see that stopping either. We are also looking at supporting emerging services and emerging markets. The technology, media and telecoms sector is a big area of growth in the UK, and we are all as firms investing in supporting the growth of specific sectors across the UK economy as well. We may well see winners and losers in this. It is rather hard to say. I wish I knew.

**Nick Owen:** I think the question is as much about the broader commercial and business landscape post the end of this year as what it means for the

professional services firms and practitioners who support their clients. I must admit that I tend to look at this a bit like the planet itself. I always go back to Charles Darwin's statement that it is not the biggest or the fastest that survive; the only attribute that causes a difference for survival in this world is adaptability.

You could argue that as a member of the European Union we have had a fairly static environment over 20 or 30 years in which businesses have developed, mutated and adapted to that set of rules and that landscape, and we are now seeing a big change coming. It has been coming and people have been preparing for it for three years. It is really accelerating to that point of change, and we will start to see the new environment emerging post 1 January. It will be really important that businesses are as adaptable as they can be. Obviously, Covid-19 has taught them a lot about their ability to adapt already, but it has probably also put some strains on them that perhaps make the degree of freedom in their adaptability less than it was pre Covid-19. Adaptability will be the key.

Simon talked earlier about his firm's client base in that small and medium-sized enterprise market. They are spending a lot more time looking at the opportunities they can pursue somewhere else, potentially under a free trade agreement with the US, as I think he mentioned, when historically they would have only been focused on Europe for that. It will cause the definition of the landscape in which people's businesses operate to shift.

Clearly, they will have to adapt to new rules, and some will be quick to adapt and will make the most of it, and others will be slow to adapt, and, as we all know from theories of evolution, that will have particular consequences. I think that will be a feature. It is just an environmental change that is a bit more sudden than we have been used to.

We are advising our clients that they almost have to plan for the scenario of maximum change, because they have to work out their points of differentiation from an agility point of view, as well as where their core assets of human and intellectual capacity, production capacity, et cetera, are, and where their market differentials are. I think they will have to shift their expectations about those quite dramatically.

**Q44 The Chair:** I would like to ask the next question. I think it was Simon who said that a framework agreement on mutual recognition would not be the optimal hope, but in the CETA deal, which, as was said, took seven years to reach, a joint committee for identifying mutual recognition was established, yet not a single agreement has been reached. Do you think that is significant, and if we ended up with the same kind of deal, would that be a plus or a minus?

**Simon Hart:** I have to admit that I am not versed in the detail of the CETA arrangements, so you will have to forgive me on that, but clearly it will have more chance of success if there are joint committees in play trying to work through these agreements in a practical way, and quickly. As I said earlier, we cannot afford to wait, certainly not seven years—not even three

years. We need certainty now about the direction of travel on mutual agreements, et cetera.

**Nick Owen:** You are absolutely right that what the EU has proposed on MRPQ is very similar to the framework in CETA. You are also absolutely correct that that framework has never led to any subsequent agreements for professional services underneath it. That is why we are very wary of that as an answer, and it would be worse than no agreement at all, which would at least allow us to go back to doing bilaterals.

As I mentioned earlier, the UK text at the moment goes significantly further than the EU text. The EU text is seeking mutual recognition to be the default position, with very clearly established administrative processes by which individuals and regulators can demonstrate robustness. That would allow us to continue to operate in the way we do. I think this will be one area of contention.

I worry that the EU side is probably misinterpreting our ask and our offer in that regard and seeing it as something slightly different. I think that in the UK Government's proposal there could be a way of looking at that agreement and, if it was not working, adjusting it, and parties would be involved in that. It would not be a unilateral thing. I think the EU regards it as a unilateral imposition of all the benefits we currently have. Whether Michel Barnier's comments on that were political posturing or a misunderstanding, I am not sure, but it was certainly one of the two.

Q45 **Lord Vaux of Harrowden:** This is a slightly catch-all question, but I wanted to ask each of you whether you have any other concerns that we have not talked about today that you would like to bring to our attention.

**Simon Hart:** Clearly, the focus of this Committee is the EU arrangement. The concern that clients have articulated to me is about the progress of the UK's free trade agreement discussions with the United States. For a lot of our clients, and indeed looking at the overall statistics, the United States on a country-by-country basis is our single largest trading partner in goods and services. Yes, the EU is important, but what is happening with the US would be the concern.

**Helen Brennan:** My biggest concern is ensuring that UK audit reports on UK companies with listings in the EU will be valid for the purposes of their listings as soon as they are needed in 2021; as I say, we are looking at them being needed in the spring, in March. It is whether we can get through the process quickly and deal with the registrations that are needed. It would be great if the process could start before 1 January 2021.

**Nick Owen:** I think the Committee has covered all the important topics, to be honest with you, and we have delved into quite a lot of the ground that I know you covered in the last two evidence sessions you have run.

My overriding concern, and I think it was raised in the legal evidence session last week, is that professional services are generally the invisible sector. Therein lies a challenge, because ultimately this negotiation will come down to politics, not economics. Politics is about people, people are

about the electorate, and the electorate sees whatever it sees. There are not many pictures of politicians with hardhats going into lawyers' buildings or accountants' buildings. I do not think it makes for good press.

It is a really vibrant part of the economy, as Simon mentioned earlier and I think I reinforced. It is a huge contributor to economic growth in this country, a massive contributor to skills development and culture in this country, and it is helped by wider professional services, but the general population do not really know how important it is. Therefore, in a political debate, perhaps not all the great things that we have covered here and which the officials who are involved in those negotiations are very aware of have the same political allure that other aspects of the economy have. That is my biggest concern.

**Lord Vaux of Harrowden:** Thank you.

**The Chair:** Thank you very much. I think that is one of the reasons why the Committee decided that it was important to have an inquiry in this area. I am most grateful to the three of you for answering in such a lot of detail. Do you want to leave us with any thoughts before I conclude the public session?

**Nick Owen:** Helen, do you have anything else you want to say in closing?

**Helen Brennan:** Only that regulation on audit—to go out where I came in—should be driven by the public interest and by maintaining audit quality, and that the UK and the EU have a mutual interest in keeping the flows of corporate reporting moving around with audit reports that are recognised as valid in all the member states.

**Nick Owen:** I have nothing to add other than to thank the Committee for their time this morning, and for taking the time to investigate this important area. We obviously work in it every day, so we are very glad to be allowed the chance to explain what all this means for us and our employees. As Simon said, there are 750,000 people in the narrow professions you have been talking about today, but with 4.1 million jobs in the UK it is an important sector. From my point of view, we wish you luck with the conclusions to your inquiry.

**Simon Hart:** Thank you for the opportunity to share our thoughts with the Committee and good luck.

**The Chair:** Thank you for your time.