



Select Committee on the European Union

Financial Affairs Sub-Committee

Corrected oral evidence: Brexit and Financial Services in the UK

Wednesday 19 October 2016

11.00 am

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Members present: Baroness Falkner of Margravine (The Chairman); Lord Butler of Brockwell; Lord De Mauley; Lord Desai; Lord Haskins; Earl of Lindsay; Lord Shutt of Greetland; Lord Skidelsky; Lord Woolmer of Leeds

Evidence Session No. 7

Heard in Public

Questions 57 - 65

Witnesses

I: Simon Kirby MP, Economic Secretary to HM Treasury, Katharine Braddick, Director of Financial Services, HM Treasury, and Lowri Khan, Director of Financial Stability, HM Treasury.

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Examination of witnesses

Simon Kirby MP, Katharine Braddick and Lowri Khan.

Q57 The Chairman: Simon Kirby, Economic Secretary to the Treasury, welcome to the EU Financial Affairs Committee's inquiry into Brexit and its impact on financial services. We note that you are accompanied by Katharine Braddick and Lowri Khan, both from Her Majesty's Treasury.

I need to make some housekeeping announcements. You have a list of interests that have been declared by Committee Members. This is a formal evidence-taking session of the Committee and a full transcript will be taken. This will be put on the public record in printed form and will be on the parliamentary website. You will be sent a copy of the transcript and you will be able to revise it for any minor errors. The session is on the record. It is being webcast live and will be subsequently available through the parliamentary website.

Minister, would you like to make any opening remarks?

Simon Kirby: Yes, I would, if I may. Thank you very much indeed for inviting me here today. It is a great pleasure to be here. You have introduced my two officials, but it might be useful for the Committee to know that Lowri Khan is the Treasury's Director of Financial Stability, whereas Katharine Braddick is the Treasury's Director of Financial Services. Between the two of them they have quite a lot of expertise.

I am looking forward very much to this morning's discussion and I welcome the Sub-Committee's work. It is a very important area and a key area of UK economic policy. I hope that it will be interesting and constructive for all of us.

We all know that UK financial services play a vital role in the UK, European and global economies. That is an important point. It is very easy just to focus on the UK perspective. What we do in this country benefits customers across the globe. Last year, we exported some £63.7 billion in financial services—insurance and pensions, exports—and we are a global hub for a whole range of different currencies: green finance, fintech, for instance.

There are five facts that I think are of significance about financial services in the UK as a whole. Financial services contribute more than 7% of UK GDP, and around half of that comes from outside London. They employ more than 1 million people, two-thirds of whom are outside London. I will talk about that later, if I may. Importantly, from a Treasury perspective, it is estimated that financial services contributed some £66.5 billion in taxes in 2014-15. It is also estimated that they provide savings for regulatory capital of some £16.7 billion. Financial services as exports, as a percentage of GDP, have increased from 1.6% in 1991 to 3.5% in 2015.

This is an important part of our economy. We are determined through the Brexit process to deliver the change that people want and to secure the

best possible economic relationship with the rest of Europe and get the best possible deal. We are aware that we do not want to disrupt financial services or drive up costs. We do not want negatively to impact the world economy, because we are a significant player in that. We are looking to make the financial services sector robust, highly competitive and open for business whatever the end result of negotiations may be. We are convinced that the best result, not only for us but for all 27 European neighbours, will be free trade between our countries, with London remaining as a global economic centre. We have a strong position to start with. There will be movement up and down ahead, but we are in exciting times that represent an opportunity for us as a country. I very much look forward to your questions.

Q58 The Chairman: Thank you very much. There has been a lot of media speculation about the Government's negotiating strategy, and indeed as to which departments are leading it. Could you talk us through the process and timings by which the Government will determine their negotiating strategy?

Simon Kirby: There is an awful lot of noise. It is difficult to know who to believe and which newspaper is telling the truth, if indeed any of them are. At the end of the day, the Prime Minister is very clear that it is our intention to invoke Article 50 at the latest by the end of March next year. There have been extensive consultations not only at Treasury level but across government with interested stakeholders. We are very much in listening mode. We can speculate about the negotiations, but it is probably too early to say quite where we are. I can reassure you that the Government as a whole, with all their separate parts, are intent on getting the very best possible deal for Britain. I am here to talk about financial services, and it is very clear to everyone that that is an important part of the solution.

The Chairman: Minister, you mentioned Article 50 at the end of March at the latest. This is an aside, but it is a relevant aside. You will be aware that the treaty of Rome European summit in Rome to commemorate 60 years of the treaty of Rome will take place on 25 March. If I were in your negotiating position I would not file Article 50 around that particular date. Assuming that you do it mid-March or so, we understand that departments have been asked to come up with their draft negotiating positions by the end of December. I wonder whether you would be able to tell us how much preparation there is in the Treasury in that regard—something a bit firmer than the overarching reassurances that you have given. If I can dig a little deeper, is the Treasury the department that is leading on the negotiations to do with financial services? One again hears contrary arguments in that case. I suspect you will tell us that the Treasury is, but in that case how will responsibility be shared across the three departments that are impacted: Treasury, DExEU and International Trade?

Simon Kirby: That is a very good question. I regularly meet many people who are all desperate to know what is going to happen. I say to all of them that I do not have a crystal ball and that it is too early to give a

firm indication. What I can say is that the Treasury is very much responsible for financial services. It has been very clear that this represents an important part of the solution, whatever that solution might finally appear as. The whole of Government are working together to get the best possible deal for Britain. It is easy to suppose that there are more conflicting views than are there in reality. It is in everyone's interest that, on the one hand, we deliver what the British people decided on 23 June but, on the other hand, make sure that we continue as a strong economy providing jobs for people up and down the country.

That is perhaps not the firm answer that you were seeking, but I assure you that the departments are all working closely together, through No. 10, with the common objective to make sure we get the best possible deal.

The Chairman: Are you providing input through briefings to the Cabinet Committee chaired by the Prime Minister?

Simon Kirby: The Chancellor of the Exchequer sits on the Cabinet Committee. He has met, as I have, with many interested parties in financial services. We have listened very carefully to their concerns, and he has made the case loud and clear at the Cabinet Committee. I do not think you should put too much weight on what you read in the newspapers. The Treasury, No. 10 and all the other departments are there to get the best possible deal, and that is what we are going to do.

Lord Butler of Brockwell: Let me press you just a little further on that. Are you really telling us that it has not been decided which department in the Government will lead on the negotiations on financial services?

Simon Kirby: The Treasury is responsible for financial services. It would be reasonable to suppose that the Treasury would lead on the negotiations for financial services, but the deal is there to be done. It is not appropriate to comment or to prioritise what is important or more important or less important. The whole point is, as you will understand, Lord Butler, to get the best possible deal not only across government but for every person and business in the UK. I will be as helpful as I can, but as much as I would like to sit here and give you detail, insight, gossip and intrigue, I am not in a position to do that because it is too early to say exactly where we are. That does not mean we are not organised, engaged, listening and preparing for Article 50 to be triggered, but it is too early to give you the detail today.

Lord Butler of Brockwell: You say there is a deal to be done, and I am not asking for the details of the deal. What I am asking is whether you are talking about a deal inside the Government with other departments and which department is going to be the lead in these negotiations.

Simon Kirby: The Treasury is responsible for financial services, and you might suppose that it would have a very strong interest in the negotiations that directly affected that policy area.

The Chairman: Mr Kirby, by saying "you might suppose", the inference to anyone who is listening to this is that the Treasury is not leading. The question is quite simple. Is the Treasury leading on negotiations on Brexit as applied to financial services?

Simon Kirby: Yes, it is.

The Chairman: Thank you. Are you co-ordinating the work being done on this at the moment across government departments and across stakeholders?

Simon Kirby: As far as financial services are concerned, the Treasury is co-ordinating the work. It is listening carefully to a whole load of very different opinions within the industry and it is co-operating and co-ordinating with other departments across government.

Lord Skidelsky: Do you have a clear idea who you will be negotiating with on financial services?

Simon Kirby: I think there will be a great number of people who have considerable interest in the area of financial services. It is very easy to suppose that there is a desire to break up financial services and redistribute them across Europe. Actually, it is in everyone's interest for London to remain a strong centre of financial services and to continue to provide the excellent service it does not only for the UK but across Europe and around the world. There is no simple answer. It is a difficult conundrum. We will be listening and negotiating with whoever it takes to get the best possible deal.

Lord Shutt of Greetland: You mentioned being in listening mode. Listening is a rather good thing, but how long will listening be going on?

Simon Kirby: When Article 50 is triggered, it will be the start of the formal renegotiations. Clearly the Government are preparing now, while listening and considering the best possible way forward, to achieve the best possible outcome. We will be listening throughout the process. We would be foolish to do anything other than that.

Lord De Mauley: Minister, in your introductory words you gave us an outline of the Treasury's current assessment of the contribution of the financial services sector to our economy and to the public finances. As an aside, you referred to 7% of GDP, and I should say that we have seen higher figures, but you are a Conservative. Are you modelling the impact on those figures of various Brexit scenarios, and how much can you tell us about your findings in that work?

Simon Kirby: There will be an awful lot of figures. Figures come out on a regular basis and there will be movement or adjustment ahead. It is about choosing figures that are appropriate to current planning and the future renegotiations. We are listening carefully and we are looking at a whole range of different figures.

Lord De Mauley: Are you modelling the impact of different outcomes for

Brexit?

Simon Kirby: It is not an easy thing to do, but we are looking carefully at a whole range of different scenarios based on the changing environment that we will be moving through.

Lord De Mauley: Will you be making public the results of those sorts of deliberations?

Simon Kirby: I do not think we will. The Prime Minister has been very clear that we will not provide a running commentary on the negotiations. To get the very best possible deal, we cannot show our cards face up on the table. I understand this causes some uncertainty, but to get the very best possible deal the Government have to get on with it. Even if I was in possession of all the facts and could share all of them with you today, it would put us in a weaker negotiating position.

Lord De Mauley: You refer to uncertainty. How concerned are you about the effects of that uncertainty on financial stability?

Lowri Khan: Obviously it is too soon to know what the ultimate outcome of the negotiations will be. As regards our concerns about financial stability, the important thing is clearly that the transition is achieved in an orderly way and that we have continuity of services to the real economy, and so that firms can adapt to the new relationship that we have with the EU.

Perhaps I could point you to some of the comments that have been made by the FPC—the Financial Policy Committee of the Bank of England—which has been assessing some of the broader risks to stability now. The work the Bank has done at international level, and to improve the resilience of the financial system domestically, puts us in a very good place. We have much stronger banks. They are being stress-tested to a high degree by the Bank of England as well, so the UK is very resilient in that space. When you spoke to Sir Jon Cunliffe a few days ago, he pointed out some of the steps that they have taken. We are obviously vigilant to the financial stability risks, but we are prepared and we have contingencies, as ever, that are in place.

Simon Kirby: It is also important to say that we are in a strong position because we made the difficult decisions back in 2010. The deficit has been reduced by two-thirds. Had that not been the case, we might be in a worse place. We are in a strong position to get a good deal because of those difficult decisions.

Lord Woolmer of Leeds: Lord De Mauley asked whether or not you were undertaking estimates or calculations of the effect of different possible outcomes. I am not asking you at the moment to say what those estimates might be, but surely you need those estimates to inform a negotiating position; otherwise you would be saying, "It does not matter what it costs; whatever the outcome, we will accept it". It might be a bad deal. Do you have any view as to how major an impact a deal might have

that would make a deal not a good deal? You keep talking about getting the best, but surely you need some estimate, otherwise you do not know the cost of one settlement as opposed to another settlement. When are you going to come to a view about the costs of different negotiating arguments?

Simon Kirby: That is a very good question. I will ask Katharine to give you some data, although I will come back afterwards.

Katharine Braddick: I am conscious that there have been several questions about the Treasury's analytical work, so I will try to describe that. We are doing very detailed analysis, sector by sector, of the impacts of different scenarios for the financial services sector—the impacts in relation to revenue, employment and tax receipts. We are engaging very closely with the industry to try to inform that. It is quite a complicated thing to do because the fiscal framework uses a different taxonomy from the ones firms themselves use in running their business. That is separate again from the regulatory structure of passports. Connecting particular business functions with specific passports and then Exchequer receipts and jobs is quite challenging.

There has been some cross-industry work that we are using as well. That work will inform, among other things, our input for the DExEU process. We have been working closely, and at least from my perspective very collaboratively and effectively, with DExEU officials to respond to their commissions for this kind of analysis. That analysis will inform the Cabinet Committee process. It is already quite a complicated analytical task but we are undertaking it and we will meet all the deadlines.

The more difficult piece as regards quantification is what are sometimes described as the ecosystem effects, or the network effects of having a concentration of financial services in the UK. That has defied quantitative analysis for a very long time. The industry can explain how it works, but we find it difficult to translate that into what the impact scenarios would look like. That is more difficult, and I do not think it is a nut we can crack analytically for these purposes and in this timescale. For the rest of it, we are doing that analysis and it absolutely informs the Cabinet Committee's work.

Q59 **Lord Skidelsky:** What confidence do you place in the forecasts of the effects of different scenarios? I am using the word "confidence" in perhaps a more technical sense. Are these exercises reliable in any way? These sorts of things have had rather low reliability in the past. I am thinking of a number of them.

Simon Kirby: I will make a general observation, and then Katharine might be able to give some detail. The problem if you are seeking a bespoke solution—we are not talking about hard Brexit or soft Brexit but a bespoke solution that gives us the best possible deal—is that by its very nature it is very difficult to try to predict what the effect will be, because it is a moving target. I think Katharine would probably agree with me.

Katharine Braddick: That is absolutely right. There are two challenges in relation to confidence ranges. One is exactly as the Minister said. If we are having a bespoke arrangement, it is quite hard to model. The other is that firms themselves are in a dynamic environment in terms of their profit and business models. They already have plans for location and structure. Distinguishing effects to do with altering our relationship with Europe from planning that firms were doing in any case is quite difficult, both in real time and to forecast. The studies that I have seen vary. Some are more thoroughgoing than others. Oliver Wyman published some work a couple of weeks ago.

The Chairman: Yes, the Committee has had sight of that.

Katharine Braddick: It is quite developed and draws on their proprietary data as well as publicly available data. That is one of the most developed analyses I have seen, but they themselves have been quite clear about the limitations of the methodology.

Lord Skidelsky: It depends on the assumptions.

Katharine Braddick: Always.

Simon Kirby: One of the misconceptions—although I am sure not here—is that financial services are all in the City of London. Although I am the City Minister, I am also very conscious that JP Morgan employs 4,000 people in Bournemouth, for instance, and another 1,400 in Glasgow. I have a list here. Bank of America employs 3,500 people in Chester. In my constituency of Brighton Kemptown, we have the American Express European headquarters. There is Deutsche Bank in Birmingham and CitiGroup in Belfast. Sometimes when we look at analysis about the UK, it is easy to look at it from just a London perspective. It is really important to realise that people up and down the country, across the breadth of the UK, benefit from having that strong sector.

The Chairman: That is very much on our minds.

Q60 **Lord Desai:** We have had conflicting evidence about what will happen to clearing houses. Have you analysed what would happen if the clearing houses relocate? Is that technically feasible?

Simon Kirby: There is a lot of noise about clearing. The whole of Europe, the UK included, would be worse off if that particular part of the financial services that London offers was dismantled and redistributed across Europe.

Lord Desai: Do you know how much worse off?

Simon Kirby: There are lots of different possibilities. Some people would have you believe that it would not go to Europe at all and that it would end up in New York, which would be a very bad place for all of us, not only in the UK but for everyone in Europe. You can talk about elements of the negotiations, and you can try to prioritise, pick out or rank things in order. I do not think we are there yet in preparing for the negotiations. It

is, if you will excuse the expression, clearly something that a number of people in part of financial services have expressed an opinion about. It is an element of the negotiations. Is it the most important element? Probably not, but it is a significant consideration. It is currently too early to say, but as things develop and when we are in a stronger place and have listened, and understood exactly what we are seeking, it will become more apparent how important that particular element is. It is not a red herring. It is clearly an important element, but it is not everything.

Lord Desai: One thing we are told is that the EU27 need us more as regards financial services. Do you have any estimate of how much business we do with them?

Simon Kirby: I think we do, do we not? It is remarkable, because it is easy to think it is a one-way street. It is very much a two-way street and we have some statistics.

Katharine Braddick: We have some somewhat scattered statistics, but it is clear that banks based in the UK lend very material quantities into the real economy in European member states. It is also clear that the asset management industry in the UK manages very significant proportions of the funds of investors who are based in the EU. The London market in specialist and commercial insurance is the European hub for that kind of insurance. The kind of infrastructure you were just talking about—CCPs in particular, because they offer the benefit of concentrating the way trading works between a number of currencies—offers a very cost-efficient and low-friction way for capital to move and trades to occur in Europe.

There are other ways financial services deliver for Europe. We are trying to collate the most robust data we can to evidence that. It is easier in some areas than in others, but it is very clear that there are benefits to do with both the relatively low-cost access to a wide range of services and the positive reinforcement of having a concentration of expertise and intellectual capital in one hub, which improves the quality of products and services offered over the EU.

Simon Kirby: It is also fair to say that, with the time zone and language, there are many softer things that the UK and London have to offer. It is easy to forget that. We are where we are for a very good reason.

Q61 **Lord Haskins:** As our inquiry has gone on, it has become apparent that our negotiating position on financial services is probably stronger than was originally thought. That is fine, but I am interested in the non-financial services—the manufacturing side. Again, the Treasury has to come into this. The danger is that on financial services you are really only negotiating with Frankfurt, Paris and maybe Dublin a bit; you mentioned New York, but not seriously. In the motor car industry, you are negotiating with 27 different countries. It would concern me if we did not use our strength in financial services, because of what we contribute, to make sure that we minimise our weaknesses in the negotiation for something like the car industry.

Simon Kirby: That is a very sensible suggestion, and I am sure it is somewhere near where we will end up. It is interesting to note that other parts of Europe are inextricably affected by the whole financial stability argument. Some of the banks in Italy are weak. Greece is obviously Greece. There are places across Europe that perhaps do not have an immediate benefit from London and the UK, but are very focused on our not having financial instability because it would be absolutely the last thing they would want.

Lowri Khan: On Lord Haskins's point, there is quite a lot of interdependency between some of the industrial sectors and the financial sector. To take motor manufacturing as an example, the German motor manufacturers have very large finance companies attached to them, so these issues will inevitably come together. Industry does not segment itself neatly into the buckets that policy necessarily does.

Simon Kirby: It is fair to say, with particular reference to the German motor manufacturers, that nearly all their leasing and finance arrangements are UK-based; it is quite a surprise, but they are. The whole thing is complex and multidimensional. People want to try to simplify it and say it is one thing or the other, but it is never going to be a binary choice. It is going to be a complicated set of negotiations that achieves the best possible deal. We will all have to wait and see what that deal ultimately looks like.

Q62 **Lord Butler of Brockwell:** We have had uneven evidence on passporting arrangements. Some witnesses emphasised the number of firms that have passporting arrangements and how important those are. Others said that they attach less importance to it. Has the Treasury made an assessment of which sectors of the financial services industry are most dependent on passporting?

Simon Kirby: Passporting is a very interesting thing. You can look at the numbers of passports, both for us to operate in Europe or for firms in Europe to operate here, but some of those passports are redundant or unused and the numbers do not demonstrate any kind of volume. There might be a whole load of them—I am sure there is a whole load of them—where there is not a lot of activity at all. Actually getting to a position where we can realistically assess the impact is not quite as straightforward as you might first think, even in banking. You would think banks were all concerned about passporting, but there is a very different opinion, for example, in the challenger banks and the big banks. If you speak to some of the American investment banks, obviously access to the 27 countries is important to them. If you talk to the insurance industry, there is a spectrum of opinion. It is something that is very important to some and less important to others. For a lot of domestic-facing financial services companies, it is not at all important. That is not to say that we will not seek to get the best possible deal on it. I do not think we rule anything in or anything out. Where we are currently is understanding and getting the most accurate information to make the best possible decisions.

Lord Butler of Brockwell: You have talked about banking and insurance. Is there anything you would like to say about other sectors of the financial services industry?

Katharine Braddick: I will say a bit about asset management. The bringing together of investment banking with asset management is the core of the concentration of activity we have in the UK. Particularly in the context of your question about passporting, because asset management has a structure whereby you can locate a fund in one jurisdiction and manage it in another under current European legislation, there are many asset managers who, with some administrative overhead, which in some cases could be considerable, can structure in a way that does not disrupt their current business model very much. The absence of a passport, for example, for UCITS funds, which are the retail funds, may not be as material for some as it initially appears. Certainly between those two big concentrations of, on the one hand, investors and, on the other hand, trading capability, it seems that it is in the investment banking sector where the ability directly to access European clients currently achieved through the passport is most relevant.

Q63 **Lord Butler of Brockwell:** What weight do you put on maintaining equivalence? Again, we have been told that equivalence is an unreliable thing, because of course it is discretionary and can be removed, and regulations change. Would you tell us how important you regard achieving equivalence?

Simon Kirby: As the Prime Minister said, the UK is leaving the EU but it is not turning its back on Europe. Clearly, international finance regulation is something that the UK has taken, and will wish to take, a leading role in developing. I spoke earlier about the importance of the 27 EU member states appreciating that there is considerable value to them in maintaining open access between our financial markets. It is something that we have listened to carefully. I have met a number of people who thought it might be a possible solution, but today I do not think we are ruling anything in or ruling anything out. What we want to do is get the best possible deal, and included in that best possible deal is access for our businesses, our jobs and our tax take across Europe. We will have to wait and see how we do the detail of that.

Earl of Lindsay: Would that best possible deal, in terms of having some sort of equivalency, include third country equivalence as it is currently designed and defined within the EU?

Katharine Braddick: We have heard from the industry very similar things to those that this Committee has heard from the industry. Opinions vary. It is clear that equivalence is not the same as passporting. Specifically, it is not the same as passporting because it does not provide the same scope, so there are not third country regimes for all the activities for which firms use the passport; and the process is different. Indeed, the process for deciding equivalence differs from one piece of legislation to the next. Part of the analysis we need to do is to understand the impact of that difference both in scope and operability as regards the

legal effect—what it makes it legally possible to do—and what is commercially viable and reliable. That is an analysis we are doing in combination with the other analysis I attempted to describe: where the acute impacts are and where access is material for the sector and for the UK economy.

Earl of Lindsay: Most of our witnesses have expressed some reservations about their understanding of how third country equivalence would work for the UK financial services, should we adopt the current pattern and definition. One of our witnesses referred to super-equivalence. Might that be closer to what you have just described, in that it is a more bespoke and tailored arrangement that varies according to which type of market one is seeking equivalence within?

Katharine Braddick: One of the challenges that we have in assessing the value of equivalence is that most of the equivalence regimes in existing legislation are pretty new. They postdate the financial crisis and a lot of them have not yet been used. One of the most important areas of equivalence, if we were to go down that road, would be in MiFID II, because that determines the regime for so much export activity in cross-border business by investment banks.

That is a Commission decision. The parameters for that decision are not terribly clear; they are quite open. The way the Commission can make the decision is open to interpretation. There are no time limits for how long the Commission has to take to make a decision. Then there is a further process where, if it wants to give equivalence, it has to go through a committee of member states, and then the European Securities and Markets Authority has to grant each individual firm from that jurisdiction. They do not approve them but they have to register them. That registration can be withdrawn and the equivalence can be withdrawn.

A lot of elements of that process are so far untested. That is why some firms are concerned about its reliability, whereas others see that the UK is currently regulating and supervising an enormous portion of this market in the EU under EU legislation, and therefore logically in substance cannot not be equivalent. It is judging how that would work both at the point at which the UK withdraws and as a steady state for doing business. It is not that those are imponderable questions, but they are quite hard to judge. That is the process problem. Then we come back to the question of whether the scope is sufficient for what the industry needs to do.

Earl of Lindsay: I will follow up with a further question. Equivalence really rests on judgment on regulation, supervision and enforcement. In recent years, the United Kingdom has tended to lead in developing fit-for-purpose, and very often innovative, new arrangements in order to keep pace with the financial services sector. We have led both within Europe and possibly internationally very often. Post-Brexit, how do you see the United Kingdom continuing to be influential and at the forefront of modern fit-for-purpose regulation, supervision and enforcement?

Simon Kirby: It is very difficult today to commit or even comment necessarily on individual elements of what the post-Brexit world will look like. It is clearly in our strong interest to have an input. If we are to be a global financial centre with a very strong reputation for financial regulation, we would want that to continue and it is an important part of the way forward. I cannot comment today on quite how that is achieved and quite what priority we might give to that, but we are listening carefully. Katharine has alluded to a variety of different opinions on the subject. We will endeavour to maintain our position and get the best possible deal we can. That is where we are.

Katharine Braddick: Lowri has insight into this through work on resolution. On my side of the house, I think the UK's ability to influence is not solely determined by its membership of the European Union. We have massive intellectual capital through the regulation and supervision of some of the most complex markets in the world. That has given us a lot of influence in international fora.

The regulators in the UK have very effective bilateral relationships with their counterparts in some of the key jurisdictions in the US, in a number of Asian jurisdictions and elsewhere. Those are the means by which we influence, and by which we learn and engage sufficiently to influence these standards. The Chancellor has been clear that there will be no stepping back from that international standard-setting process.

Lowri Khan: I very much share that assessment. We engage intensively with the Bank of England and the FCA in particular and the UK authorities engage very actively in the international standard setters—the Basel Committee and the Financial Stability Board, et cetera—where we are members. There is no sense at all that we will need to step back from that. We are still very engaged. We have a huge asset in the form of some very intellectually strong contributions that the UK is able to make in those fora. I very much agree with your assessment that we have led a lot of the agenda on the post-crisis reforms. I do not see that that should stop just because we are not in the EU. The quality of our relationships and the intellectual leadership will continue. You heard from Jon Cunliffe. He was very clear that the Bank would be redoubling its efforts in this sphere. That is the way to go.

- Q64 **Lord Skidelsky:** One effect of Brexit has already been felt. That is the depreciation of sterling by 16% or 17% since the vote. Of course, I know that it is notoriously difficult to forecast what the value of sterling will be in a year or two years, but taking its present value and assuming that that will not change very much in the course of the negotiations, what effect do you expect it to have on the export of financial services? What effect do you think it might have on our negotiating position? On the second question, I think that, although it might give us additional strength in negotiation because of the greater penetration of export services that it will enable in Europe, it might invite retaliation. These are all things that must be in someone's mind. I just wonder what the Treasury's assessment of that will be.

Lowri Khan: It is somewhat beyond my brief, but obviously there have been some fairly substantial movements in the currency markets. We do not have a target for the exchange rate. We have the Bank of England with its inflation target, but we do not target the exchange rate. That is set by the market.

As far as the influence on the financial sector is concerned, clearly there will be a whole range of transmission channels from different levels of the exchange rate through to the financial sector and the way it operates. From my perspective I am clear that the financial sector is very robust. We have had stress tests that have stressed it to a far greater degree than some of the exchange rate movements we have seen recently.

I am less clear about the commercial impacts. That is an interesting question.

Simon Kirby: I do not think it is necessarily appropriate for me to comment on the level of the exchange rate. The road ahead will have ups and downs. Markets move up and markets move down. I do not necessarily agree with your assumption that we will end up with a similar exchange rate in two years' time, or indeed in two weeks' time. Who knows? That is what markets do.

It might be useful to say that, in my meetings with a large number of financial services people, I hear a mixed view on exchange rates. Whatever the exchange rate, it has an impact on some people positively and an impact on other people negatively. It is not something that we seek to influence from a government perspective. We fully expect markets to see a movement as we proceed down the road.

Lord Skidelsky: I am not saying that the Government in any way seek to influence the exchange rate, but there are consequences of different levels of exchange rate on financial services, on the economy in general and on negotiation. One thing people do not like the prospect of is any kind of currency war. That might make all these analytics redundant in a way. It seems to me a key point.

Simon Kirby: That is a fair point, but it is only one of the dimensions in the multidimensional problem or opportunity that we face. The underlying economy of the UK is strong. We made the difficult decisions over the past six years. Financial services in particular are held in high regard around the world. Whatever the exchange rate, it is in Europe's interest to get the best possible deal as well. I have reiterated that two or three times. We are not in this alone. It is not us turning our back on Europe. We are just leaving the EU, and we should be confident, optimistic and positive about the opportunities that presents.

The Chairman: Minister, can I interject on timing? Would you be able to give us a few minutes beyond 12 o'clock?

Simon Kirby: Sadly, and it is quite a good excuse, I have a UQ in the Commons.

The Chairman: We literally have a few minutes. In that case, I turn to Lord Haskins and I will then come in with a final question.

Lord Haskins: What we have been getting all the time are the concerns that everybody has about uncertainty. David Davis said it will take two and a half years to complete the project, and Article 50 suggests that. During that period decisions will have to be made. Currency has been mentioned as one degree of uncertainty. There is uncertainty about trade negotiations and where they are going to be over that period. It must be a concern to the Treasury to have to satisfy those who are uncertain. Certain of the uncertainties are unavoidable. You cannot clear up the complexity of financial services overnight. On one hand, people do not want uncertainty, but on the other hand we need a robust system going forward. After two and a half years there will still be a period of transition, particularly on trade negotiation. We have been told that trade negotiation could take between five and 10 years. How will the Government attack the issue of uncertainty?

Simon Kirby: I would say that there are two things. The first is that we have listened very carefully to people who are concerned about transitional arrangements. Some people are more concerned than others. It is important that we make sure that there is as smooth a journey ahead as possible and as little disruption as we can manage. Secondly, I am a businessman and business is all about managing uncertainty. We would all like to know exactly what the future will bring, but businesses make money by analysing the risks, preparing contingency plans and making the best possible decision for their shareholders or owners. I do not think in any environment you can ever remove uncertainty.

Lord Haskins: But this is uncertainty with a big capital U.

Simon Kirby: The Government have a task and a responsibility to make the future as certain and as successful as possible. It is in our interests and in the interests of businesses that employ people to do so. We are looking for a smooth and trouble-free exit that gets the best possible deal.

Q65 **The Chairman:** Thank you, Minister. My eyes are on the clock. You said that you have not ruled anything out and you have not ruled anything in. You said that several times in the course of the last hour. Have you ruled out access to the single market as an option? A yes/no answer would be fine.

Simon Kirby: We are definitely leaving the EU, but we do not rule anything in and we do not rule anything out.

The Chairman: Thank you very much indeed. This concludes today's public evidence session. The Committee will now continue its meeting in private. Minister, Ms Braddick and Ms Khan, thank you very much for coming in. We have found your evidence session very fruitful. We have some supplementary questions and we will put them to you in writing.

Simon Kirby: Thank you very much indeed.