

International Trade Committee

Oral evidence: UK Trade Options Beyond 2019, HC 817-vi

Tuesday 31 January 2017

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Members present: Angus Brendan MacNeil (Chair); Liam Byrne; James Cleverly; Mr Nigel Evans; Marcus Fysh; Mr Ranil Jayawardena; Sir Edward Leigh; Chris Leslie; Shabana Mahmood; Toby Perkins; Sir Desmond Swayne.

Questions 376 - 444

Witnesses

I: Niamh Moloney, Professor of Financial Markets Law, LSE, and Allister Heath, Deputy Editor, The Telegraph.

II: Anthony Browne, CEO, British Bankers' Association, Chris Cummings, CEO, The Investment Association and Gary Campkin, Director of Policy and Strategy, TheCityUK.

Examination of witnesses

Witnesses: Niamh Moloney and Allister Heath.

Chair: Good morning, Panel. Can I ask you to introduce yourselves and your organisations, for the record, starting, as ever, on my left, or your right?

Allister Heath: My name is Allister Heath, and I am Deputy Editor of *The Telegraph*.

Niamh Moloney: My name is Niamh Moloney. I am a Professor of Finance and Market Law at the London School of Economics.

Q376 **Chair:** In her speech of 17 January, the Prime Minister confirmed that the UK would be leaving the single market. What does that mean, in your view, for the financial services sector? Niamh?

Niamh Moloney: It is a very significant decision that will have implications. Some of these are driven by political considerations; many of them, however, have a legal foundation. I say this because the single market in financial services is a very significant actor as far as the UK financial services sector is concerned. That is for one reason in particular: the UK has huge strengths and a great competitive advantage when it comes to wholesale financial services—the sophisticated services dealing in securities, risk management, derivatives, stock exchanges—that act as a pipeline back into the single market. At the moment, the access to that single market is not entirely but relatively frictionless as far as law is concerned. If we assume there is no access to the single market, there is a very different legal environment that will have to be navigated.

Q377 **Chair:** That legal environment—we have had some talk about the difficulties that there might be with dispute resolution, minus the ECJ. Where do you think that might take the UK, over time?

Niamh Moloney: There are four immediate consequences, and one of them very much plays to the dispute resolution issue.

The first thing is that passporting rights do not apply. The second one is, the rights the UK currently has in terms of non-discrimination on currency grounds, for example, will be removed as a matter of EU law. A third issue is the UK's legal status becomes that of a third country, which brings it into the equivalence regime. Then, fourthly, of course, the UK as a third country sits outside the EU's supranational structures, if you like, taking the European Court of Justice out of the equation. However, the difficulty is a lot of the concepts that drive access, rather than membership of, the single market are present. We see the Court of Justice as the arbitrator on them. So, for example, equivalence decisions,



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which are key for access to the single market, are currently under the jurisdiction of the Court of Justice, so that is a complexity that would need to be navigated.

Q378 **Chair:** Allister, any views on what the Prime Minister's speech might mean for the financial services sector?

Allister Heath: The Prime Minister's speech was very significant. I think, personally, it was welcome, and I think it was the right decision. However, the one area that is going to be the most impacted and that will face the biggest challenge to readjust to the post-EU, post EEA order will be financial services. The simple reason is that, when it comes to financial services, the EU, if it wants to be protectionist, can impose, effectively, infinite tariffs. It can simply ban activity from taking place, trading from happening, from the UK to the EU. That does not happen in other areas, for example in automotive or manufacturing, or so on. You are covered by the WTO rules; you might get tariffs, you might get non-tariff barriers, but you do not necessarily get the same kind of tariff barriers.

It is right for people in the City to be concerned about the implications. That said, I am broadly optimistic for several reasons. The first reason is, one needs to remember that the City is not entirely dependent on Europe, of course. Roughly 33% of exports of financial services go to the EU; that is less than the average for the UK as a whole, which is now about 44%. Roughly 20% to 25% of activity in certain kinds of wholesale banking and so on is conducted or dependent on the EU. Of course, these are massive markets and it is hugely important for the UK to come up with an alternative way by which we can continue to sell financial services to the EU, but first of all it needs to be put in some sort of perspective.

Q379 **Chair:** A final question to you both before I move on, because time always shifts quite quickly in these mornings. What is, basically, the worst-case scenario for the City of London if the UK finds itself in WTO trading arrangements?

Allister Heath: That would be the worst-case scenario. There would be job losses in the City if that were to happen. In my view, the job losses would be far less than some people think, but you would get 1,000 job losses in Bank A, 1,000 job losses in Bank B, 1,000 job losses in Bank C, and so on, by which I mean front-office-type job losses. That would be far, far less than all of the numbers that have been bandied about, but nevertheless it would be quite significant; maybe 10,000 jobs, or something like that. I would say that is a worst-case scenario. However, I do not think necessarily at all we are going to end up there. One could have a temporary situation where, once we leave the EU we rely on equivalence and other sorts of measures as part of our withdrawal agreement, and then we try and renegotiate a free trade association with the EU that includes financial services. There is a huge incentive for both sides to find a solution here. The EU is massively reliant on us as a financial centre when it comes to raising money, for example Governments in the bond markets, companies in the bond markets,



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equity markets, derivatives, and so on and so forth. I also think that a very large number of EU financial institutions are reliant on passporting to the UK; the traffic goes both ways. We need passports into the EU, but they need passports into the UK.

Chair: Niamh, on that point, with the WTO?

Niamh Moloney: I would agree with much of that. If one literally puts it in terms of worst and best, I think the worst is the WTO context without an equivalence decision being made, so there is no regulatory answer to how to access the single market. The best outcome is—

Q380 **Chair:** What would the consequences of that be?

Niamh Moloney: There are two consequences in particular. One is access, so under WTO rules and the kinds of standard, free trade agreements the EU currently has, there probably would not be any difficulty in setting up subsidiaries or branches, but the financial actor in question would be subject to the relevant law of whatever member state they were operating in.

The second one is—sometimes this gets overlooked in some of the technicalities around this—it affects the EU. For example, if I am a broker in the EU, there are EU rules governing how I interact with the rest of the world. For example, if I want to trade derivatives, let's say, on a London exchange—and London is our third country—unless the UK has equivalent status, I cannot trade on that market. That is bad for the EU but also troublesome for the UK; but that is the worst-case scenario.

The best-case scenario would be a free trade agreement that maps, to the greatest extent possible, passporting rights. How might that be achieved? That would be achieved through a new and imaginative way of looking at issues around equivalence.

Q381 **Chair:** Just briefly, before we go on to Nigel Evans, the best-case scenario. How does that compare to the current scenario? How good is that compared to the current scenario?

Niamh Moloney: Inevitably, it is difficult to make the case—although possible—that it would be as good as the current scenario. Why do I say that? One of course can negotiate in an agreement, if there is good will on both sides, something that everybody is happy with. My concern as to why it will not be as good as it might be comes from a lawyer's perspective, which is that there is an inevitable lack of robustness, if you like, in a contracting trade agreement that is not underpinned by the treaty guarantees, by the free movement rights, and that might be subject to renegotiation and so on. There is that legal context that is different for a free trade agreement from being a member, with legal rights, of the single market.

Mr Nigel Evans: You have answered some of the questions already.

Chair: I apologise.



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Q382 Mr Nigel Evans: No, because you have given full answers. Would one of the options be for the EU to just allow the United Kingdom to carry on with passporting rights?

Allister Heath: It seems to me you could obviously do that through a free trade agreement. That is the best case scenario—we end up with a temporary situation where we allow equivalence and some other measures to kick in to minimise or eliminate disruption, and then we have a free trade agreement that could go much further than even that, and it probably would, when it comes to financial services, be a replica of the current status quo.

In terms of other things, by the way, I see an upside, because it is very, very important, if we are going to leave the EEA, which I think we are and I think it is the right decision, that we have control once again over our legislation and our own regulatory framework. I am actually a long-run optimistic about the City over a 10-year horizon, because with the share of the global economy that is made up by the EU shrinking and the opportunities in China emerging afterwards going up, having the right pro-competitiveness regulatory framework in the UK is vital, and leaving the EU and the EEA and all that sort of stuff will allow us to do that. The key is this transition when it comes to our biggest market, which is the EU.

Q383 Mr Nigel Evans: Would you see them removing passporting rights as a legitimate thing if we did not come to some sort of free trade deal with the financial institutions?

Allister Heath: For example, under MiFID I, 2,250 UK firms have passports, but 988 European, EU, firms have passports. Triggering some sort of trade war or a complete breakdown in relations would be a disaster for the EU just as much as it would be a disaster for the UK. As we were just discussing, there are all sorts of activities that they need to do that they suddenly will not be able to do, and even if banks suddenly start to plan for this, the infrastructure will not be ready for this. This is the cliff-edge scenario. The cliff-edge scenario is very, very damaging for both sides, and I do not see why they would want to do that, because you really would have massive problems if you were based in the EU.

Q384 Mr Nigel Evans: It would be a political thing, then, rather than an economic thing?

Allister Heath: Ultimately, this whole thing is a political thing. What we are saying here, the real question we are asking, is whether the EU is going to be protectionist in such a way that it damages its own interests to quite a significant degree after we leave the EU, yes or no? We are not being protectionist; we want to continue to trade. That is what it is about, so it is clearly a political decision.

Niamh Moloney: I might add a possibly slightly different perspective on that. I think it would be very, very difficult for the EU to provide passporting, and there are two reasons why that is the case. The first



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thing is that passporting is an access mechanism, but the reason why it is possible, the reason we have this at all, is that we have what is called the Single Rulebook in the EU. This is this enormously densely harmonised set of standards that go from high-level principles right down into the administrative wheels, in terms of how financial actors operate. Sitting beside that, if you like, there are legally binding pan-European supervisory co-ordination arrangements: exchange of information, financial stability arrangements, data exchange. Because these two are in place, this is what allows—economically and politically, as it were—member states to accept financial actors from other jurisdictions. It is the pay-off, if you like. It is the price of access.

Q385 Mr Nigel Evans: If they want to do that, it could continue as a separate deal, couldn't it?

Niamh Moloney: It could. Well, there are a couple of difficulties. One is the idea that regulation is burdensome; this is the price one pays for access to the 27. The second issue is, and Allister alluded to it there, that it gets very difficult because how do you ensure that on day 1, a minute past midnight, the UK regulatory system is going in lockstep with the Single Rulebook? I think it would be almost impossible for the EU to agree to complete access without that commitment that one signs up to the Single Rulebook.

In preparing for today's session, I was looking at systems of passporting and how these sorts of arrangements work internationally, and you do indeed get access, you do get subsidiaries and branches and so on, but there is no example of complete unfettered access to a visiting system without concessions to that regulatory system.

Q386 Mr Nigel Evans: People talk about this transitional period, post the two years but prior to us fully leaving. Would you see that it is in their best interests to keep passporting as part of that transitional deal?

Niamh Moloney: I think so. The transitional arrangement is absolutely critical. The cliff-edge effects are bad for everybody. There is absolutely no doubt about that. There is an interdependency there. It is how long it goes on for and what the conditions of the transitional arrangements are. A critical one will be, if you transition and we keep passporting for two, three years, how do we mediate disputes at that stage? Do we have the Court of Justice? One can see that would become a tricky issue. Yes, it is in everybody's interests to avoid the cliff-edge effect, but there will come a point where passporting will lift and it will be replaced by something else.

Q387 Mr Nigel Evans: In my simple mind, Allister, I see that the financial sector is important to us and we do well out of it in our trade with the EU, but on other goods they have a massive benefit, and I think the deficit is £80 billion in their favour. Would you see as one possibility the leverage of the use of the one, that is access to the UK markets of all these amazing BMWs, Audis, Mercedes, and the rest, in order for us to get



access on the financial sector on passporting rights?

Allister Heath: My own personal view is that we need to practise free trade and reduce our tariffs and our non-tariff barriers to the minimum possible. That said, I would imagine that in any negotiation, those kinds of things will be obvious because it is clearly in both sides' interests to minimise trade barriers and it would be very, very strange indeed were the only area to be affected by EU protectionism to end up being the financial services industry. I cannot see how that would be politically tenable for the UK Government or any negotiator. I would imagine all this stuff would go together. I strongly hope that we do not end up having to resort to any tariffs or punishments.

Q388 **Mr Nigel Evans:** You mentioned 10,000 jobs earlier on in response to the Chair's question. What do you base that 10,000 on?

Allister Heath: Observation. I have been following quite closely the source of the rhetoric and the estimates that have been put out by individual financial firms and their groups that represent them, and there have been some very high estimates, like 80,000, 200,000, huge numbers of job losses. I do not believe that to be the case and do not think anyone in the City really believes that to be the case. However, you have had organisations like HSBC, UBS and others all saying they would have to move about 1,000 people each. You have had, for example, Lloyds of London saying they would have to move a very small number of people and create an EU-based subsidiary for about 5% of their business, and so on. That is a more realistic outcome. That is bad news, because you do not want to lose any jobs, but it needs to be put in the context that far more jobs were lost during the financial crisis in the City, for example, so this is less bad a blow than a recession would be.

Secondly, there is a trade-off. It is possible that we lose some access to financial services to Europe, but I would hope that is more than compensated for by other kinds of access in other areas through trade deals and other things.

Thirdly, crucially, I think this is a major opportunity for us to regain control of our own financial services regulation and change our financial services regulation, over time—not necessarily for the first few years—to make it work for the UK and be as competitive as possible, to expand our exports of financial services to the world that is not the EU. As I said, only 33% of our exports of financial services go to the EU and not all of that will be damaged or blocked; nothing like all of it.

Q389 **Mr Nigel Evans:** Finally, you said that if the United Kingdom strikes a proper deal with the EU, then things could be okay. What, for you, would constitute a proper deal?

Allister Heath: A free trade agreement that includes financial services. Perhaps except some small reductions in access, but as much as possible keeps current amounts of access when it comes to financial services.



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Q390 Liam Byrne: Very briefly, can you just explain the tension between the UK taking back control of its regulatory framework and the need to keep our regulatory system in lockstep with European supervisory mechanisms in order to maximise access to the European market? Isn't this "take back control of regulation" a chimera?

Allister Heath: No, this clearly is a tension, I agree. The tension basically is that if you want equivalence, then you need to have equivalent regulations, obviously. On the other hand, there is a distinction to be made between equivalence of outcomes and equivalence of process. You could argue that if the aim is to have a similar outcome, ie financial stability, for example, there is more than one way of achieving it. Secondly, the EU financial regulation is obviously based on the kinds of rules that are agreed at Basel or in the G20 and so on, but they have taken those and they have added some additional tonnes of regulations on top of it, for example, things like the bonus cap when it comes to banks, which other countries that have signed up to these other international deals have not accepted.

I agree that there would be a trade-off. The trade-off happens during an equivalence period, but if you sign a free trade agreement, you do not necessarily have that problem. Secondly, as I have been saying, something like 20% to 25% of the activity of wholesale banking in London depends on EU markets. Something like 75% or 80% does not; it is either UK or it is America or it is emerging markets, and so on and so forth. I would anticipate, as 90% of economic growth in the future is going to come outside of the EU, that our reliance on the EU markets will decline, including financial services, just like it has done in other areas, and therefore it will become more and more important for us to be able to be competitive in those other markets. We just need to sit down and think, "Do we keep exactly the same EU rules when it comes to financial services for as long as possible when it comes to the City, or is it worth losing some access if we are able to obtain a free trade agreement to be able to expand in other areas?" In a way, it is an empirical question. You are absolutely right and there is no denying that there is a tension between those two things.

Q391 Sir Edward Leigh: On that point, the City of course, Mr Heath, is full of extraordinarily talented people. Do you agree with Tim Worstall, a fellow of the Adam Smith Institute when he writes, "City has done well in the past as an offshore financial centre. Much of what it does now is as a result of being an offshore financial centre. In fact, it is rather easy to think of reasons why the flow might be the other way. We expect banks and bankers to preferentially move into that regulatory system, do we, or preferentially move out of it into a newly deregulated City of London?" Do you agree with Mr Worstall when he writes that?

Allister Heath: I am quite optimistic about the long-run future of the City if we leverage globalisation and if we find the right sort of regulations for the UK. It is quite possible that a version of the scenario you have described might happen, but the difficulties in negotiation are in



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the short term, and obviously if the UK were to announce tomorrow that we are going to abolish all taxation on banks or something like that, that would create massive tensions with the EU and everything would break down. Therefore, clearly, you cannot go too far down that road too quickly. On the other hand, I do think that certain things make no sense; some of the taxation and regulation—

Q392 Sir Edward Leigh: As you said earlier, it is not necessarily equality of regulations but equality of outcome, and I would have thought there is no political will in the UK from anybody to try to destabilise financial stability, which we have spent all this time trying to recreate.

Allister Heath: That is right, but a lot of the post-financial crisis changes were right, such as massively increasing the amount of capital and liquidity that the banks have to hold, and introducing resolution mechanisms. However, some of the regulations that have come out have been counterproductive. We cannot change those regulations at the moment because of our EU membership. I am hoping that we are able to change these things in the future to attract more banks and bankers to the UK to trade globally.

At the moment it can, in certain cases, make sense for an American bank to base people in New York and not London because they are not covered by the bonus cap, for example. There are all sorts of ways they can arbitrage at the moment. Also, UK banks based in the UK, like HSBC, Barclays, and so on, are covered for all their global operations by EU regulations, including when they compete in Asia for staff, or when they compete in New York. There are all those kinds of things we need to look at. Access is very important and it is one of the many components that we need to look at. I think, personally, that over a 10-year period, competitiveness is the most important criteria, but I am talking about competitiveness in a rational sense, which obviously maintains stability and makes the UK very, very stable and in a very, very secure place where we know that things can work.

Q393 Sir Edward Leigh: Just one more question. You have already said that, obviously, many more EU passports come in here than go in the other direction and we all understand it is in their interests to do this deal.

Allister Heath: The opposite, actually.

Q394 Sir Edward Leigh: Many more EU passports coming—

Allister Heath: UK firms use more passports to access the EU than the other way around, but nevertheless, it is still a significant number the other way.

Q395 Sir Edward Leigh: Just for the sake of argument, say there is not a deal on passporting. If you are a bank in the UK, there is nothing to stop you setting up a subsidiary bank, if you did not already have one, in Frankfurt or Paris, is there, and then you could benefit from the passporting?



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Allister Heath: Yes, but the main argument is whether you need to move staff and how many staff you have to move.

Q396 **Sir Edward Leigh:** You cannot really estimate how many staff might move. It might be a few thousand. Obviously, there is no question of the City of London moving lock, stock and barrel to Frankfurt or Paris, in your view, setting up subsidiaries and Deutsche Bank, whatever, sending 200, 400, 500 staff over?

Allister Heath: Just looking at what people have said, and making various assumptions, I came up with a number of 10,000 as a worst-case scenario in terms of—

Q397 **Sir Edward Leigh:** Out of how many, remind us?

Allister Heath: Out of how many?

Sir Edward Leigh: Yes.

Allister Heath: I do not know the exact number, but many orders of magnitude greater than that. It is a small percentage.

Q398 **James Cleverly:** A lot of what I was going to discuss you have covered in answers to the last question, but if London were to go on an aggressively deregulatory direction of travel, what do you think the response of the remainder of the EU would be? I cannot imagine they would just take it.

Allister Heath: I agree. It would create pretty significant tensions. We need to tread carefully, but that said, in five years' time, in 10 years' time, I cannot see how it would make sense for us to have maintained the entirety of EU legislation when it comes to financial services, given that clearly some of this EU legislation is not working very well when it comes to the UK and that a greater and greater percentage of the City's activity is likely to be taking place outside of the EU. That is a trade-off. The trade-off is, how quickly can you change things without losing access or losing too much access when it comes to the EU market?

Q399 **James Cleverly:** Professor Moloney, you said earlier on that the various financial services centres are interwoven, legally. We talk about deregulation here; how practical is that in a legal sense?

Niamh Moloney: My sense is I am sceptical of the deregulation argument. My reason for being sceptical is this: the financial crisis changed how we think about financial regulation. It is hard to underestimate or to underplay the significance of the shift in how regulation is designed and how it operates internationally. To my knowledge, there is really no jurisdiction internationally that one would look at and say, "That is a deregulated space that attracts business", because since the financial crisis, we have new referees, there are all sorts of international standards, et cetera, that Allister alluded to, that set the rules, but equally, almost every jurisdiction does what is called "gold-plating" and they are to protect their own jurisdictions, they add rules on



top of that. The extent to which they do that, they will be balancing their attractiveness internationally versus protecting their own financial stability, but there will always be that financial stability assessment.

If I might just give one example: the US, a huge, deep, liquid market, one that inevitably globally is going to slightly run the play. Everybody wants access to the US; everybody wants to interact with the US. My judgment would be that the US is the toughest player internationally in terms of holding the line to its rules. If you want to play in the US market, you play by the US rules. This is a notion that is called “national treatment” and they do not deregulate to attract business, partly because of course there is a competitive angle—they are looking to their own market—but also this powerful sense of financial stability and protecting what is going on in your jurisdiction.

If I might just give one example of that, very briefly? One of the biggest, let’s not call it “a row” but a transatlantic difference of opinion, only finally got resolved in early April back in 2016, which was this difficulty about what are called “central counterparty clearing”, or “CCPs”. A CCP, if you like, is a sort of nuclear power station. It manages risk. Derivatives go in and derivatives go out, and this creates or helps financial stability for the globe. There are differences between US law and EU law. US law was very detailed; EU law was very detailed. Both parties were in a process where they said, “We are looking for outcomes, we are looking for high levels, we are looking for us all being in the same place regardless of how we get there”. But when it actually got into hammering that out, line by line by line, the detail became very important. Therefore, things may shift, but right now, I would describe the jigsaw internationally as being a regulated one.

Q400 Marcus Fysh: Just to follow on from what you have been saying about the difficulties of potentially deregulating outside of the current system, of which we are a fundamental part in London, and in terms of the counterparty clearing, there is a lot of offsetting that allows us to keep a lot less capital than we would otherwise have to devote to, for example, the derivatives market and clearing around that. Is it possible, in your view—this is to both members of the panel—for us, and it may take a political change, but is it technically possible, do you think, for us to stay as members of the EEA and therefore be bound by some of the financial regulations that exist within the EU currently, as set up, and then to be able to have some deregulation that we might pursue in different financial services and ancillary services in other parts of the world that do not impact on the EU? Is that technically possible?

Allister Heath: Do you mean keep EEA rules for operating in the EEA?

Marcus Fysh: Yes.

Allister Heath: I suppose, in certain ways, it could be possible, but I suppose it would require things like separate subsidiaries if you have different amounts of capital and so on, for example if you have a



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subsidiary to trade with the EU and a separate subsidiary to trade with the US. But I think, clearly, there are certain areas where things are not changing, I would say. We do not know what is going to happen to Dodd-Frank in the US, for example; that could be a very, very large change.

There have been a number of areas in which the UK Government has clashed with the EU when it comes to specific regulations; for example, there was all this business about the bonus cap. There is also a difference of opinion when it comes to whether challenger banks should be allowed to have lower levels of capital, and so on. I suppose this plays into your question, and you could use those for domestic purposes.

Niamh Moloney: It is a very interesting idea. It is certainly complex, for exactly the reasons Allister mentioned because, of course, the EEA has the Single Rulebook and jurisdiction by the Court of Justice, so one wonders, if you are weighing up the costs of regulation, whether it is just easier for everybody concerned to keep that standardised rulebook for how you interact with the rest of the world, even if it is technically possible to move it around at the edges. In terms of just pure business model operations, it is the same set of rules and we run through in the same way. I would imagine there are technical ways of doing that.

If I might just add a comment to that in terms of the global financial relationship, one thing that is worth putting in the mix here is, absolutely the EU is in and around one third of the business that comes out of the UK, but if one looks at the evolution of European capital markets over the last 20, 30 years, it is going in the direction of being more of a capital market than being a banking market. We are seeing this shift from the big multi-function banks that do banks and insurance, and they are increasingly doing the markets-based activity that we associate with South-East Asia, the States, and so on. If you like, there is change and evolution on a long-term basis for services to be provided back into the European market.

Q401 **Marcus Fysh:** Just as a follow-up to that, if it were to require some change in the ECJ arrangements that you were talking about before, is that something that we could look at in terms of moving to a different type of arbitration system that was effectively adjudicating on the same *acquis*? Just as, for example, the EFTA Court interprets freedom of movement rules according to ECJ case law, and also given the need for us to preserve English law and judgments that are made in English courts that are currently enforced automatically under the *acquis* in other European nations, what do you think, from the financial industry's point of view, are the reforms that would be needed to move to a different form of arbitration, effectively, that could enforce those elements properly?

Niamh Moloney: If we are looking at a new world of equivalence, let's say, or a new version of passporting, at the moment it is difficult to see a scenario whereby the EU would concede the Court of Justice, but that is



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simply where we are now. In a negotiation, everything is up for negotiation.

The EEA model is slightly tricky because when it comes to how the EEA interacts with the EU, back in comes the Court, and it is really only the EFTA Court as between the EFTA members. But if one thinks about how international regulatory systems move together internationally, because financial regulation is becoming so global, we are in the very early stages—they are very early—where we are beginning to see mechanisms, baby steps, if you like, such as peer review and mediation between supervisors. The Financial Stability Board, for example, the grandfather of all these standards centres, does peer review of member states internationally. The Basel Committee reviews compliance of its rules internationally. The technology is there in what one might call a very prehistoric way but, with good will, it could possibly be tweaked and pushed and moved around to create some kind of system that oversaw equivalence access-type arrangements and how disputes might be resolved.

Q402 Sir Desmond Swayne: Professor, the Chairman of the Treasury Select Committee, among others, has expressed discontent at the adequacy of the existing regulatory architecture, particularly in respect of managing systemic risk. Are we missing an opportunity in not using our negotiations on leaving the EU to come up with something very much better together with our partners—our former partners?

Niamh Moloney: That is a very interesting question in terms of just shaping how the EU is doing financial stability. My sense is, when it comes to stability arrangements, the great strength is in collective arrangements, so for all its difficulties, the banking union is on a route which is managing risk. We are not there yet, but there are structures and processes for getting there. At the moment at least, the way one thinks about financial stability, one thinks about collective arrangements. In terms of third countries in the EU, the key thing is going to be replicating or at least having alternative channels through which information and support flows from the UK back into those EU arrangements, rather than rebuilding another kind of architecture.

Q403 Sir Desmond Swayne: What is our leverage, once we have ceased to be subject to European regulatory standards, over the international standards and the mechanisms that they have?

Niamh Moloney: That is a really interesting comment. If one thinks about where we are right now, the international standards-setting bodies, the big one being the Financial Stability Board, the Basel Committee—the UK currently has four routes into those bodies, so as the UK, it sits on these bodies. The first route is, as part of the EU, so the Commission will be there; what are called the European Supervisory Authorities—these are the collections of supervisors—will be there, so there is a second bite, if you like. The third bite comes in when an international standard is implemented in the EU, and the UK, as part of the council, will shape how



that happens and protect its interests in that way. The fourth bite is at the very technical level, when the European supervisory authorities get into the deep detail on this.

Outside, on Brexit, the UK will be a strong, influential and powerful voice on the international standard setters, but I think what will be important, as a pure matter of international financial diplomacy, is that the UK regulators are actively and positively, and have the chance to do so, keeping those systems open with the European supervisors. Here I would very much reflect some of Allister's comments about good will, co-ordination. It is in everybody's interests that the European financial market, in its wider sense, is stable and there is a broadly consistent approach to financial regulation. Here dialogue, for example over equivalence and a special body that oversees equivalence, all helps to make that financial diplomacy easier to happen, if the formal channels—the working groups and so on—as a matter of formality, fall away.

Q404 Sir Desmond Swayne: I got the impression from Mr Heath's earlier answer that, regarding any priority in the medium to long-term about keeping in step with European regulation as against regulatory standards that might apply in some of the emerging or important international or other markets, he was very much in favour of the growth markets of the future. Do you have a view on that, or was I right in getting the impression that you are somewhat sceptical that there will be that much difference?

Niamh Moloney: My sense is that the financial crisis has left a scar and that scar is that not only do we have to regulate the risks we know, but we have to be alert to the risks we do not know about. That is why you will find a lot of discussion right now in and around fintech, in and around shadow banking; the bits of the ecosystem where we do not know what is going on but we need to be ready for it because that is the way of thinking and the sense of the unknowns can cause huge difficulties once they get identified. How we think about regulations changes. In the sense of deregulation in a significant manner—it is always important to change rules, revise them, always—I would be a little bit more uncertain about deliberate deregulation actually happening.

Q405 Sir Desmond Swayne: A question for both of you—what do we actually lose by giving up our influence over European regulatory standards? The key question that underlies that is, to what extent are regulatory differences a barrier to trade at the moment, or is it something that we just adapt to and live with?

Allister Heath: The main issue, in my view—and this goes to the heart of the Brexit debate—is that we, in the big ways, failed to change the EU. We were not able to engineer proper free market and financial services or even in services, for example, which is where our strength is, and so we have decided to leave the EU. I suppose we will lose, on the margins, some influence in the sense that it may end up being even less pro-market, especially if there is political change over the next year or two,



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but the main area of concern for us leaving the EU is access. Can they just stop us from selling financial services from the UK to the EU? There are certain other problems. Hence the conversation before and the need to have a short-term solution based around equivalence and some other things.

In the long run, the world is a growth market and we need to focus more on the rest of the world. One of the key economic arguments in favour of Brexit is this notion of diversification. The EU is not growing very fast; it is falling behind; its market share of the global economy is shrinking. Everywhere else is growing and we need to diversify everywhere else. In terms of how we can change our regulation, I do think that what is happening in America could be very interesting. We do not know what is going to happen to Dodd-Frank. Any day something could be announced when it comes to Dodd-Frank, that could have repercussions here.

Also, for example, in insurance, we have got Solvency II, which is this big piece of regulation that affects insurance companies. In my conversations over the last few years with general insurance executives and others, they hated it; they really didn't like it. There is huge opposition to it, they thought it was designed not for the UK but for other European countries, and so on and so forth. You see those kinds of major changes that were not designed for the UK's interest and not particularly designed for consumers and not designed for financial stability. I am not saying we should be doing anything that jeopardises financial stability; of course I am not saying that. I am just saying that we need the right kind of rules for the UK, for a UK that is trading globally in terms of financial services.

There are other things. The UK Government was opposed to the bonus regulations. The UK Government at one point wanted higher capital requirements for large banks and smaller capital requirements for small banks. The list goes on. One area that I am very keen on is resolution mechanisms; this idea that you write a new bankruptcy code and you come up with a new way for financial institutions to be wound down in case they fail, to protect taxpayers, to bail bond holders and so on.

We can see that, in theory, the EU is working on this, but look at what is happening in Italy; it is not being applied. It is very, very important that we in the UK go it alone on that, in a sense, or at least stick much more with what has actually been theoretically agreed in these big international organisations and actually develop a resolution mechanism that works. It seems to me not credible in the long run that we will retain all EU rules and the entire EU approach to regulate our financial services industry, as we leave the EU, basically.

Niamh Moloney: If I could just come in on both of those. I am very much in the same space as Allister, but on access—and that is a key issue—this is where I really hope there will be the imagination and political will to figure out a deal in equivalence. The UK has been extremely good—very, very effective, I think—in shaping the corpus of



EU financial law in a very, very effective way. There have, absolutely, been the flashpoints—clearly, the bonus issue. Absolutely. There have also been flashpoints around short selling and there have been flashpoints around the hedge fund Directive. But, if one takes the vast bulk of day-to-day banking, investment services, trading regulation, the UK has been enormously effective in shifting, I would suggest, evening out regulation to a much more liberal, market-facing, open type of regulatory arrangement, which is a lot of exemptions; there are a lot of exemptions and options and so on. Given that that is there, it would be great to keep that corpus, if you like, that has some very good features to it, and maximise the potential for equivalence to come off that.

The second thing is shaping the debate internationally. If I might give just one quick example? The EU as a bloc managed, really just by weight of numbers, to persuade the US to accept what is called IFRS—that is simply the accounting language, the language that companies report their accounts in. If I am a European company and I am operating in the US, I do not have to change my language and all of the hassle that involves, into US accounting language. That was achieved at the European level.

That kind of collective power coming from the big market can absolutely be maintained in a different way through different channels, whether it is through the free trade agreement, having specific formal communication lines back into the European Central Bank or the European supervisory authorities. If there are mechanisms that keep that kind of collective power, I think that would be very useful.

Q406 Mr Ranil Jayawardena: Just to pick up on that, Professor Moloney, isn't it true that we have lost out by having to cave into some of those agreements that we might not have wanted to make? According to one expert, and we all love experts, the City has done well in the past as an offshore financial centre. Much of what it does now is as a result of being such. The examples he cites are that Russian goldmines are not financed through London because of EU regulation; financial passports are not the reason that a Kazakh tantalum producer is listed in London, not elsewhere. We are a global centre, given that we are a stable centre. Isn't it true that actually we have lost out by having to adopt regulation that you refer to, that we might not have wanted to?

Niamh Moloney: Two points, I guess. One, from following the negotiations and looking at what the EU rulebook looks like, there are relatively few points where there is a piece of EU legislation that the UK actively did not want, and a famous example of that is the bonus rules. Interestingly, they are changing; the EU is changing the bonus regime. In the large sweep of the rules that apply, there are flashpoints, but I do not think, if you looked at the UK financial system as a whole, you would say, "It would have been very different".

Secondly, absolutely, that point. Over the last 50 years, the London market is characterised by innovation and change, flexibility, and some of that change indeed has been driven by regulatory decisions; the Big



Bang, for example. But I would suggest that I do not think the European rules have deterred or damaged the London market. For example, every so often the London Stock Exchange reviews its admission rules, the rules that allow the company on to the London Stock Exchange. If one looks at those rules, you will very often see the Stock Exchange saying, "Our badge of honour is not tough regulation but quality regulation. Being on the London Stock Exchange is a quality mark". To the extent there is room to manoeuvre, you will often find parts of the market using regulation as a way of attracting business.

My wider point would be that London, really for the last 100 or 200 years, has been a global centre and it is and it will continue to be, but there are landmines that need to be worked around to ensure it is as easy as possible.

Q407 Mr Ranil Jayawardena: Just before I bring you in, Mr Heath, you said, Professor Moloney, that it would not be very different. Those things that would not be very different still would be today; those things that we did not want to do, we would not have had to do, so on that basis, wouldn't Brexit be far more likely to set off a boom in financial markets for the UK rather than create anything else? In the wider context globally, shouldn't the UK think about harmonising financial regulation not just with the EU but more with the US in, as Mr Heath has referred to already, the moving feast that is US financial regulation?

Niamh Moloney: These points very much go to the heart of it. There are two issues, really, at play here. There are issues around growth and access and access to markets; that is one issue. The second issue is how we think about those markets. Financial stability, consumer protection, the spillover effect of risks; they are pushing in two separate directions. One is openness, growth, competition; the other one is that there is an inevitable cost to regulation and as a society we have to make a choice about how those two balance out. At any given moment in time, those choices will move back and forth, and over the last 10 years, the choice has very much been that risk cannot be passed onto society ever again to the extent it was a few years ago, so we are in a regulatory paradigm.

Those societal choices move and shift and change, and there is no doubt, outside the EU of course, that the UK would gain that regulatory autonomy. I suppose I would just suggest that the competition that would build up in rules—and I think it will—is not going to be a race to the bottom. I do not think we are ever going to see that. It is going to be a race to the sides, almost; the extent one can finesse. For example, I suspect we are going to see competition around culture and governance, so we could well see different rules about how does your board work, how does your pay work, how do your rules around incentives work, for example. I doubt that we are going to see a whole lot of moving and shaping around capital, liquidity, stability, those sorts of rules.

Q408 Mr Ranil Jayawardena: Mr Heath, I know you wanted to comment on the previous question. Perhaps I could just add one other question? You



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have talked already about the changing environment globally, particularly with the United States. To what degree do you think the UK financial market really needs to adapt to harmonise regulations with the US, and do you think that further EU equivalence in the future might actually preclude our work with the US? Actually, if you look at Lloyds of London, they do far more business in dollars than in euros.

Allister Heath: Yes, it all goes down to the point that 33% of exports in financial services go to the EU and 20% to 25%—depending on how you define all of this stuff—of our wholesale banking activity goes to the EU, which means all the rest does not, and clearly the other parts of the world are going to grow much more quickly. I think this is quite an important point that is not usually made—that we often look at whether the UK Government agreed or disagreed with EU decisions over the past 10 years, but it was a very, very different context. It was a context of a certain kind of thinking; we were committed to the EU; the sorts of people and the sorts of policies where you are trying to be consensual and believed in certain kinds of approaches to regulation and so on.

I suspect that after Brexit the kinds of rules we would want to adopt—or had we been out of the EU over the past 10 years, which is another way of putting it—we would have wanted our regulatory system to evolve in a different way to the way it actually evolved. Just simply looking back over the past 10 years, we have only disagreed three or four times, but I suspect we would have disagreed quite a lot more.

I also agree that, increasingly, these rules are determined at an international level and I think it is very, very important that we continue to play a very big role in that, but I think we will. When you just look at Mark Carney, who is the chairman of the Financial Stability Board, he is on the board of the Bank of International Settlements; you have someone called Chris Salmon in the Bank of England who is a key player in the Foreign Exchange Working Group at the BIS; Vicky Saporta of the Bank of England is Chair of the Executive Committee of the International Association of Insurance Supervisors, and so on. Because of the strength of our financial sector and because we kept the pound—keeping the pound was essential in all of this—we have a lot of influence in these international rulemaking bodies.

It is going to be a combination of these international rulemaking bodies where, yes, there is harmonisation, but also of adjusting our regulatory system to yes, make it as robust as possible by making it more pro-competitive so that we are able to compete more and sell more to non-EU parts of the world.

Q409 **James Cleverly:** Just going back, Allister, and Niamh, if I could ask you to comment as well, briefly, on this? A lot of the talk about deregulation has been about making the UK financial services market more competitive and about the challenges of actually bringing that in place. Is it not the case that the regulatory regime has really made it very difficult for new entrants into the financial services market? It has forced all the



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players in the financial services markets to do fundamentally the same thing in fundamentally the same way, and then when a problem arose, you had market contagion because basically there was very little differentiation either in size or the nature of the activity. Is it not the case that a deregulatory environment here in the UK post-Brexit could actually create a safer financial services sector because it has a broader base of players who are approaching the market and its challenges in a variety of ways would create firebreaks between the various bits of it? Allister first, and then Professor Moloney.

Allister Heath: Yes, we always fall into the trap of thinking we know best this time, that suddenly we have learned all our lessons and we can predict the future. After every crisis, that is what everyone always does, and we assume that the new rules are going to be perfect or far, far better. The problem is, of course, if everyone in the world adopts exactly the same rules, if they have forgotten about one key problem, then when the key problem suddenly rears its head, the whole system is taken out at the same time, and so by eliminating diversity and creating a uniform regulatory system, that kind of risk becomes more pronounced. Yes, there is definitely that danger in the current regulatory system and if in some ways we can move, on the margins at least, away from it, that will be good.

Secondly, I think there are clearly barriers to entry and that is one of the big problems in financial services; we need to encourage more entrepreneurship and more entrance into the market; that is very important. Some of the current, status quo regulations militate against that and make the system more prone to boom and bust. Going back once again to the way we have moved away from variable pay and we have encouraged the big firms that operate in London to massively increase their base pay, that has created a rigidity in the system that basically means next time there is a downturn, sadly the fixed costs compared with the revenues will be much larger, and I think that creates systemic risk in the system. In this instance the EU was actually creating systemic risk rather than reducing it, and that is something that we need to look at. Obviously, it is particularly difficult.

Both of these things are very, very important, but that is because we work in a financial system where you have the Bank of England, the Bank of International Settlements, the Financial Stability Board, Basel, and so on; we need to work with that and we need to try and influence that.

After the financial crisis, there was a big body of work that suggested the previous versions of the Basel rules actually helped to create the financial crisis, because they created accounting rules that allowed banks to get away with certain things that led to all these catastrophes taking place. It is very, very important to make sure those rules are right, and it is also very important to make sure that we do not all end up with harmonised rules that are just bad for us.



Niamh Moloney: My sense would be that the financial services sector is different, and it is different on a number of levels. One of them is the potential it has to bring loss to the taxpayer, and for wider societal losses to be generated is incredibly significant. For that reason, we have a regulated space where we control who goes in and out of the financial area, and a regulatory licence. Holding a regulatory licence is an extraordinarily valuable thing, because you are signalling to the outside world that there is a level of regulation and a level of stability and protection, and we are protecting society in a particular way. That is the baseline in terms of thinking about regulation.

Absolutely, one has to be very, very good at how you throw that rope around the financial sector, because if it is thrown too wide or thrown too narrow, you have exactly the issue that you have mentioned—competitive problems where you have people outside the net engaging in financial services that may or may not be productive, but they have a competitive advantage. Therefore, the job of very good regulation is to craft regulation in such a way that is going to—not that you do not regulate, but that you regulate in such a way that like activities are treated alike, so shadow banking, banking and so on.

Here I would strike an optimistic note because, like everything else, the more it happens, the better one gets, and if you look at how regulation has been moving and shifting relatively recently, the last two years or so, there is a very, very strong sense of the notion of proportionality. If I could pick out one word that distinguishes regulatory chat in the last two years, it is that rules must be proportionate. How you regulate a big bank is going to be different to how you regulate a challenger bank; how you regulate a crowdfunding website must be different to how you regulate whatever it is. That is hard and that is complex, but regulators are getting better at this, and I think that is the way to deal with this difficult balance of growth versus protecting the financial system. Keep the regulations, but become nuanced as to how they apply.

Q410 **Chair:** A final question to wrap up the session, mainly directed to Professor Moloney. The ECJ has been important, obviously. I would just like you to spell out for us the current UK influence on that ECJ, but also how important would a cross-border resolution process be to capital markets for the UK and the EU post Article 50 and then Brexit. Is that possible? Who would be the future adjudicator in such a scenario?

Niamh Moloney: Very briefly, the Court of Justice has been critical. We will need to ensure in the negotiations that this gets mapped to a certain extent, not so much on the detailed rules, technicalities and passporting but on the big principle of non-discrimination. There should be no discrimination on grounds of currency or nationality. As a third country, there will be non-discrimination concepts that will be relevant. Mapping that kind of adjudication, that we are equivalent and you cannot change the rules on equivalence because you are discriminating against the UK,



those big line issues about discrimination will need to be replicated in some form.

Q411 **Chair:** In the current setting of the ECJ, there is a tendency, often reflected in the media, to think of the UK and the Europeans. For example, I can hear from your accent you are Irish. What would the Irish or UK influence on the ECJ be? How would member states interact with the ECJ? Would there be a difference in the influence they might have?

Niamh Moloney: There are big controversial questions that have arisen around financial services. For example, the UK had a very big and important win—and I would suggest a correct win—in terms of the euro-area clearing issue. The European Central Bank tried to repatriate clearing. The European Court said no.

Chair: Which the UK could lose now?

Niamh Moloney: It could potentially, yes. There will always be member states there. Everybody is protecting their own market so everybody will be looking out to protect certainly the euro area versus everybody else. Of course there will be a backwash effect for the UK there. There will always be the check within the EU that euro area interests are not pushing out the rest of the single market. The UK will, of course, have a shadow benefit from that.

Going to the issue of resolution, internationally everybody is developing systems of trying to co-ordinate the failure of a bank because of the ramifications. The UK is currently within the EU specific co-ordination means for doing that. The resolution Directive does provide for third countries. As is often the case, the third country rules are at the end of the Directive. They have not been tested yet and we are not sure how they will work out. They do provide for agreements to be arranged and for co-ordination structures. They do not specifically arrange for dispute resolution and what would happen if the European structures refused to comply with a resolution decision made in the UK that required action to be taken in the EU. It is at that level of granularity that the free trade agreement will be very, very important. There will be means of dealing with this, whether it is a tribunal or other. It will not be the Court of Justice because I do not think that sort of single market location of the Court of Justice will translate to a free trade agreement. However, that is exactly the level of granularity that will have to be addressed.

Q412 **Chair:** Very finally is the idea of a court of foreigners, as tabloids might put it, telling the UK what to do. The UK is not going to be in a position to have dispute resolution that is just UK. It is going to have to co-operate internationally with other foreigners for dispute resolution. We go from one situation to perhaps a similar but different situation.

Niamh Moloney: That is true. Possibly one of the ways of thinking about this is that that technology is around but we do not think of it in terms of a court with powers. For example, when the IMF comes in to any major economy and does FSAP reviews every five years it will issue a report



that you are good at this and bad at that. That is not dispute resolution, but it is an external assessment of an economy. Equally, when the Basel Committee comes in—as it did to the EU and said, “You are not compliant with Basel”—that is political and soft, but it is a form of mediation. There are ways of thinking about this. Perhaps it is not dispute resolution. Perhaps it is oversight or monitoring. This happens all the time in international financial governance. There are ways of borrowing from the international standard setting process to achieve the same outcome.

Q413 **Chair:** Thank you. On that optimistic note we will stop there. Allister Heath, thank you very much. Professor Moloney, thank you very much as well.

Niamh Moloney: Thank you very much.

Examination of witnesses

Anthony Browne, Chris Cummings, and Gary Campkin.

Q414 **Chair:** Good morning, panel. Thank you for being our second panel this morning, it is much appreciated. With this panel we hope to look at passporting, equivalence and alternatives to equivalence, as well as trade with non-EU countries and UK domestic regulation afterward.

Firstly, panel, can I ask you to introduce yourselves and your organisations for the record, please, starting on my left with Gary.

Gary Campkin: Gary Campkin, Director of Policy and Strategy, TheCityUK.

Chris Cummings: I am Chris Cummings. I am Chief Executive of the Investment Association.

Anthony Browne: I am Anthony Browne, Chief Executive of the British Bankers’ Association.

Q415 **Chair:** When the UK leaves the single market UK financial institutions will no longer have passporting rights. Trade with the UK will be based either on equivalence or on some other as yet undefined model. Could you set out the options as you see them, which of them you favour and why? I am going to see if there is any agreement amongst the panel on this.

Gary Campkin: The key thing to start off with is to be clear about what it is we are talking about. There has been a great variation in terminology. The comments I make will be related to passporting rights. Passporting rights give market access. That is the point of departure. Certainly for TheCityUK the maintenance of mutual market access in terms as closely defined as currently is an important part of the ‘asks’ we make of the negotiation. Why mutual market access? It is not just about



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UK-based firms having access to the EU. It is also about the EU-27 and their corporates having access to the world's leading international financial centre that is also Europe's financial centre.

Chris Cummings: I concur with the comments of Gary Campkin. What is important to my members is that we maintain a level of mutual market access. That has to be based on mutual recognition of regulatory standards and current regimes as they apply. Particularly in the asset management of the buy side context the key issue for us is the maintenance of delegation. That is the ability of those organisations in Europe, outside of the UK, to maintain an opportunity to delegate fund management back here in the UK. Everything else evolves from that. We feel that is a sensible and pragmatic solution based on international standards that go beyond a discussion between the UK and the EU.

Anthony Browne: I agree with the two previous speakers. What we want is mutual market access and passporting rights. Passporting as currently defined only exists within the single market. We are leaving the single market. What we mean by "passporting rights" is the ability to sell directly to customers across border in another country and to set up branches in those countries without burdensome regulatory approvals. That matters more in some sectors than others. It matters more in wholesale banking than retail. There is not much possible in retail banking. We would like to retain those rights in some form.

You asked what the options are on that. Equivalence as currently defined in EU regulations and directives is an option, but it is rather limited. It does not cover all services. It is unpredictable in the sense that it is subject to political whim and can be withdrawn at short notice. Certainly for my members that is not a good enough basis for their operations to decide how they operate. We need something in between. We are not going to get passporting as defined in the single market because we are not in the single market. Equivalence is not good enough. We need some other negotiated form of mutual access abiding by high global standards with some dispute resolution mechanism in there. That is what you were referring to in the previous session.

Q416 **Chair:** Given that concern and the unanimity in the panel does the panel feel it would be a lot simpler and better if the UK remained in the single market?

Anthony Browne: The British Bankers Association has not taken a position on membership of the single market. For the record, we did not take a position on membership of the EU either. We stayed neutral.

Q417 **Chair:** But for all the things you are trying to achieve?

Anthony Browne: The reason we have not taken a position is that there are different views within the industry. One of the downsides of remaining in the single market—whatever the other political issues about freedom of movement of people and sovereignty in terms of the ECJ that



we have not become involved with—is that there is an issue about being a rule taker. As a global financial centre we would have to accept rules on financial regulation that the host government, the UK Government, has very little say over. In the longer term that could cause significant problems. We know from discussions with the regulators that that is a concern for financial stability. They have made that point in other Select Committees. If we are a global financial centre with assets of 600% to 700% of GDP and do not have much control over our financial regulation it would be a cause for concern from a stability point of view. Also, if you are a global organisation headquartered in the UK you might have concerns about being regulated globally by Brussels and the European institutions when the host Government have no say over it.

The other side of membership of the single market is that you have immediate continuity, no problems with market access and so on. From an immediate point of view it is clearly attractive. There are upsides and downsides. Different members and different banks are affected in different ways. That is why we did not take a position.

Q418 **Chair:** Any views from the rest of the panel?

Chris Cummings: The Investment Association did not take a firm stance either way. Not only did we have members on both sides of the Brexit discussion but it was also recognised that it is important we establish what the bespoke deal that would emerge, the new terms of trade, would look like in order to preserve a level of access that meant Europe's savers continue to get access to the expertise that is here in London. About 1.2 trillion of European money currently gets managed through London and across the rest of the UK.

Q419 **Chair:** For the purpose of our inquiry they would be just as relaxed, I presume, about WTO as well?

Chris Cummings: It depends on what the new terms of trade would be. A reliance on WTO feels like we have dropped down a few notches in terms of our ability to influence. The key point for us is how we maintain regulatory coherence globally. The UK-based asset management industry is one of the UK's great success stories. We are now one of the UK's fastest growing export-earning industries. We look after over £1 trillion of assets that come from investors outside the European Union. It is really making sure we have that global look and secure a level of regulatory coherence, not only between the UK and Europe but more internationally. That is a bigger prize for the industry to aim at.

Gary Campkin: TheCityUK's position is similar to my colleagues. We did not campaign for a particular outcome. We are not in campaign mode now. What we are focused on is providing the right sort of evidence base for the right sort of policy decisions so that those involved in the negotiations can get the right deal. I would stress this has to be the right deal for the UK, the right deal for the EU-27 and the right deal for global stability. Those are our guiding principles.



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Q420 Chris Leslie: I want to cover two points in particular; the question about how we align and how we work together and get the right access to markets, and then come to euro-denominated clearing.

We all want to maintain that smooth, frictionless ability to trade. It is two million jobs and something like £67 billion of revenue that pays for the hospitals and schools in my constituency in Nottingham. We all know what we want in order to do that. I am intrigued by this bespoke deal, whether it is some sort of stable equivalence or a different form of alignment. Can I press you a little bit to speculate on where the Government might take the negotiation process? There is a lot of talk about a new treaty between the UK and the EU in terms of a free trade agreement. This is about permanent equivalence. Tell me a little bit more about the dangers of not having that stability. You talked about the ability of the European Commission to flick the switch and suddenly say, "You are not equivalent. Sorry, no trade at all." Why is that stability so important in that particular relationship?

Anthony Browne: If you are basing your operations and making multi-billion pound investment decisions, you need to know that the tap cannot suddenly be turned off by politicians in another country. You need a stable legal framework underpinning your operations and your trade. That is basically the reason.

When you say "equivalence", what I was referring to is equivalence as currently defined in EU regulations and directives. Sometimes in the media and politically we use "equivalence" in a broader way. The trouble with equivalence as currently defined is that it is very one-sided. It is a gift given by the Commission. It is not a mutual agreement. There is no dispute resolution mechanism. It can be withdrawn for any particular reason. There does not have to be a proper warning about withdrawal. You do not have to go through a process of assessment to see whether conditions are met or not. It is a very, very one-sided condition and is not a stable basis for a global industry to base its operations on.

Q421 Chris Leslie: Ideally, we are seeking some sort of new relationship that provides a two-way arrangement. Your point is well made about not necessarily being a rule taker on the Single Rulebook. We need to retain the ability to shape their regulation as much as ours. What are the options there, is it some sort of new institution to arbitrate between the two entities?

Anthony Browne: Whatever agreement we have between the UK and the EU will be unique. Never before has a country left the EU and never before has a financial centre left the EU. We will have a unique set-up. There is obviously a range of different options. What we have described as the current scenarios do not really work. We absolutely want mutual access underpinned by a commitment to global standards. We can have a discussion about what is meant by global standards, but it is as set out by the Financial Stability Board. You need that to ensure coherence and market access.



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In terms of equivalence, there are different interpretations. Do you mean line-by-line equivalence? At the moment, our regulation is obviously word-for-word EU regulation because we have adopted it wholesale. However, you can have equivalence based on outcomes and objectives that is far more loosely interpreted. If one side diverged too much, you would then need that to introduce some new law.

Previously you were discussing remuneration, but another issue that has caused concern is the financial transactions tax. For any new regulation that comes along you would have to have some mechanism for deciding whether it abides by that mutual access agreement or whether they are artificially putting up barriers one way or another for their own commercial advantage. It is completely normal in trade agreements to have dispute resolution mechanisms. The WTO has one. The European Free Trade Area has the EFTA Court, for example.

Chris Leslie: We would really need that because without that, resolution of even any alignment is not—

Anthony Browne: Yes, you can start off with the current regime, but in order to be dynamic and futureproofed against changes on either side you need some sort of dispute resolution mechanism that both sides accept.

Q422 **Chris Leslie:** Mr Cummings, in some of the written evidence to the Committee you have talked about the FCA's role in this negotiation process. We do need to get that regulatory dovetailing. That needs to be an ongoing thing if we are going to make a new FTA work. Is that what you were alluding to?

Chris Cummings: That is absolutely right, particularly in the sense of how the buy side looks at this—the investment management industry. Given that the FCA is the most sophisticated and experienced of securities regulators across Europe, other European regulators often look to the FCA for its depth of technical expertise. There is a great opportunity for the FCA to be punching above its weight in the various European fora that exist.

I will take a step back. I am very conscious that words like "delegation", "passporting" and "equivalence" get misused. The reason delegation is so important for asset managers is that it is a description. If a Dutch pension fund looking after the assets of its pensioners is considering its investment, the current system allows that Dutch pension fund to phone up a fund manager here in the UK to pitch for the business, to change investment strategy and so on. There is a complex set of agreements that make that happen. Some are regulator-to-regulator and have been around if not quite for ever certainly for a long time. They predate some European regulation. There is a network of regulator-to-regulator agreements as well and, of course, various European directives. There is also the international overlay because that Dutch pension fund may want its assets managed through New York.



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What we are increasingly seeing here in the UK is that our expertise in fund management means that it is the Chinese pension fund that is looking to speak to UK-based asset managers with a new mandate. As we think about those things—recognising that the Chinese economy simply for asset management is going to be worth some £20 trillion over the next 10 to 15 years—that is why protecting delegation as it currently stands is really important for the UK economy. It allows us not only to gather assets from across Europe and around the world but to bring them back here and manage them throughout the UK. That is to the benefit of the UK economy. It is hugely important that we get these structures right. I do think the FCA has a leading role to play in its technical competence in the European fora.

Q423 Chris Leslie: That is very important. Mr Campkin, thinking about what we might want to put onto the negotiating table as new forms of alignment and permanent relationships within that new free trade agreement, will TheCityUK be thinking about different stable equivalence proposals and what those institutions are? We need to get, it feels to me, some expert lateral thinking because this is uncharted territory. Is that the sort of place you are going to be heading?

Gary Campkin: Yes. I hope the Committee will be aware of a number of pieces of collateral we have published over recent weeks that are beginning to build up a quite comprehensive view, based on the views of our members, on what is required. The most recent piece was published today on international trade and investment and the independent UK trade investment policy that will come into place once the UK leaves the EU. There was also the piece that Hogan Lovells authored with us on third-country regimes. That was probably the most detailed piece of looking at why, as my colleagues have said, the current arrangements do not work in the futurescape and why it is really important, moving ahead, that we focus on four “Cs”; continuity, certainty, customers and clients.

If I may, Chairman, refer to an example I used before the Exiting the European Union Committee that emphasises why it is important for the EU-27 as well as for the UK. A German manufacturer wants to put in a new production line. That manufacturer will go to its financial services provider in Germany and have a discussion there. I bet you a pound to a euro that finance will be done through London, often with London or UK-based advice. The professional services wrapper—legal services, accountants and business advisory—will also be part of the deal. The end user will not necessarily see that, but that is the reality. I would argue very strongly that the EU-27 need to think very carefully about future competitiveness in striving for the right deal for them in the same way we need to strive for the right deal for the UK.

Q424 Chris Leslie: That is a really well made point.

My final question to all three of you might seem niche, but it scares me when I start thinking about the size of the implications regarding euro-denominated clearing, currently much of which goes through LCH at the



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London Stock Exchange. It is—mind-boggling figures—something like \$150 trillion worth of clearing activity for derivatives and so forth annually that goes through London. If they take that back in the European Court and that is no longer viable within London tell us more about the implications. Do you agree with the EY report that talked about the potential for 83,000 job losses, not just in terms of brokers and traders but in professional services such as technology? Was that overstating it? Can you talk about the implications of that seismic change on clearing if that were to occur?

Gary Campkin: For market infrastructure generally, regulation has been geared at establishing high standards of risk management and transparency. You are right to say that for the world's leading financial centre, London and the UK, much of that capital liquidity and risk has been pooled here. That has given tremendous advantage to end users and clients because that service can be provided efficiently, effectively, at best cost and is flexible for what the client needs.

If the EU-27 decided they wished to pursue a move that somehow tries to repatriate it—I will come back to an important point about whether it is possible in a minute—the resulting fragmentation will not help EU-27 corporates. It is another issue they need to think very, very carefully about. I agree with what Sir Jon Cunliffe said when he gave evidence to the House of Lords last year. He said that this decision ultimately would be a political decision. Practically it is very difficult to see how legislation or any regulation that carves out London could be put in place. The world does not work that way.

The last point I would make is, again, a point for all of those involved in the negotiation. One of the biggest risks out of the wrong outcome is a situation where functionality goes not to Frankfurt, Dublin or Luxembourg but to New York and Singapore. It is the European economy as a whole that will lose functionality.

Q425 **Chris Leslie:** You concur, Mr Cummings?

Chris Cummings: I do. One of the great strengths of London as an international financial centre—and I stress international—has been the deep pool of liquidity and capital that corporates and governments have been able to look to in order to finance their needs. That has developed a talent pool here in London that is simply unrivalled around the world. It has also generated those ancillary jobs you mentioned in technology and so on. When I look to why London has done particularly well in terms of growing not only its trading across Europe but increasingly with other global currencies and the RMB it is because of that pool of talent that has been able to support that type of business being done. The great danger is fragmenting not only the capital pools but the talent that is able to conduct business in that particular market, and also the regulator expertise to peer into the market and know what is going on. There are quite a few second and third-tier issues there.



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Q426 Sir Edward Leigh: I want to refer to your second last answer to my colleague. That was very encouraging and interesting. When we look at financial services we think of them in terms of trade. You have to have passporting or equivalence because you are moving stuff across borders. As I understood what you were saying, if you were doing a deal that is nothing to do with money per se in Germany and you are buying or selling something, you are ringing somebody up in the City of London for the expertise. That is what you are saying, isn't it? Whatever the non-deal on passporting or equivalence, you are going to go on doing that. That is what you are saying, isn't it? Did I understand you correctly?

Gary Campkin: The bespoke deal needs to allow current arrangements to continue to the extent possible. We would argue that the bespoke deal also offers an opportunity to take things even further. The bottom line of the point is to look at what happens here in London and the UK as the world's leading financial centre and as Europe's financial centre. Part and parcel of that is not just straight FS, it is also legal, accountancy and business advisory.

Anthony Browne: Exactly. It is advice really, advice.

Q427 Chris Leslie: Finally, I want to double-check I have got this right in terms of clearing fragmentation, extra cost to banks then passed on to businesses domestically; that extra inefficiency cost trickles down essentially.

Anthony Browne: It will be very significant and very negative. We have certainly got some scepticism about the practicalities of actually doing it, both from an operational point of view and a legal point of view. People might do euro-denominated clearing in other centres like New York.

Q428 Shabana Mahmood: I want to move on to alternatives to equivalence and have a couple of questions to you, Mr Cummings, based on your written evidence to our Committee.

You have said that access to national markets to some EU member countries, including Germany and the Netherlands, might be available outside of the formal EU regulatory framework. Could you talk us through how you think that might work?

Chris Cummings: I am very happy to. We did a legal review of the current regulation and operations that exist outside EU frameworks. Coming back to my point about delegation and how people gain access to the market now, an awful lot of our members already have branches in other European member states. That maintains their ability to conduct business in those European member states. For those without branches, we want to get a better understanding of whether the extra EU law permits business to keep on being conducted and whether delegation can still occur. What we found was a whole patchwork of intra-country agreements, existing practices and different law, so we conducted a legal analysis to help our members understand what the position actually is.



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The UK asset management industry is bigger than the asset management industry of France, Italy and Germany added together. That is why it was so important for us to help our members understand how they could continue to do business. I would be very happy to share that analysis with you and this Committee. It really does go to the heart of the issue of how we maintain for our customers an ability to keep on accessing the level of expertise they currently enjoy today.

Shabana Mahmood: It would certainly be helpful for you to share the detail of that analysis with us.

Anthony Browne: To follow up what Chris is saying, we are going through the same analysis for banking, where there are many different business lines. There are certainly legal frameworks that exist from before the creation of the single market, such as the ability to lend and take deposits across border. For example, you can have bilateral agreements between the UK and Germany that would allow that to continue. It is a very complicated analysis because you have 27 different countries and hundreds of different business lines that are affected by different bits of regulation. The problem for the industry relying on that is that it is one of those things where it is a partial solution to some things. It does get very, very complicated. In a lot of transactions you have a lot of different operations and deals. You have the advice that Sir Edward Leigh was talking about; you might also be taking a deposit, doing a syndicated loan or providing interest-rate hedging products all covered by different bilateral frameworks and maybe involving multiple countries. It gets complicated, expensive and difficult. It adds to the cost and reduces the ability of companies to get the financial services they need. Ultimately, that would impact customers.

Q429 **Shabana Mahmood:** Is it so big and complicated, given our strength in this area, as to make it unworkable in your initial assessment?

Anthony Browne: What would happen, if we relied just on that, is basically the big companies and big countries would be okay or in a better position. If you are a global German corporate—I will not pick on any particular company—with subsidiaries in the UK, your treasury function has probably got a subsidiary in the UK. They may be able to access those services directly. Given the size of the German economy, and France and Italy, the UK may put particular emphasis on doing bilateral agreements with those countries on the legal framework that predates the single market. If you are a middle-sized company or smaller company you will be shut out from all that and it will be a lot more problematic. Even for the existing countries, it would still add to cost and complexity.

Chris Cummings: I was looking to come back in, trying to be helpful in terms of what we would want, a bit of granularity in the answers.

One of the great asset management exports has been UCITS. It seems to be the only asset management brand that has any purchase



internationally. I have recently returned from a trip to China and the Chinese were very interested in finding out what would happen to UCITS and whether they could still access them. There is almost a mythology that UCITS is a Luxembourg product and, of course, we are working very hard to make sure people understand that is not the case. It is making sure the British Government uses the time between now and the end of the transition period to make sure that the current UCITS regime is grandfathered, that existing customers still have access to products and then sorting out what happens next. That is an example of some really simple practical things that we all know need to be done. It is not high politics. It is things regulators can set a clear roadmap to achieve.

We have one or two further issues on MiFID. That is still a little bit political. It is making sure the MiFID regime gets implemented thoroughly. One of the passporting things that we talk about is in MiFID. That again makes it clear we have secured that market access.

In terms of what our industry needs, two or three very simple practical things will make a world of difference.

Q430 Shabana Mahmood: Your written evidence touched on your suggestion that we should negotiate maintaining UCITS access for UK funds. I wondered how realistic that would be given that, by definition, UCITS only apply in the EEA. What is your initial assessment of whether that is realistic?

Chris Cummings: I think it is realistic. It does not require a huge amount of political goodwill. Recognising where the investment management of UCITS goes, which tends to be in the UK, there is a simple win-win solution in terms of maintaining mutual market access that looks after the needs of European investors. As long as we keep coming back to what is in the interests of the European economy—not just the EU economy but the European economy—and continuity, based on mutual market access, makes sense for all parties.

Q431 Shabana Mahmood: To all three of you, finally from me, we have all discussed the phased process of implementation or a transitional deal, whatever you want to call it. How long, in your opinion, do you think the financial services industry would need to adapt? What kind of time period would that phased implementation or transitional deal need to cover?

Anthony Browne: We just did a very detailed report on this and we have not given a specific time. What we see is two different phases. One is the bridging period between when we leave the EU and when we have agreement on what the new partnership will be like. How long that bridging period is would depend on how long it takes to negotiate that agreement. If the Government did negotiate that agreement and had it at exactly the same time we leave the EU, you would not need any bridging period at all. Ivan Rogers, the former British Ambassador to the EU, suggested it might take 10 years to ensure there is something in place while that new partnership agreement is negotiated. The Prime Minister



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has said she wants to do it at the same time. She would not need a bridging arrangement.

The second part of it is once we know what the new partnership is—the stuff we have been discussing earlier—we need time to adapt to what that new partnership is. The time taken to adapt to that new partnership depends on what that partnership is and how different it is from what we have at the moment.

Chris Cummings: I would have to agree with Anthony Browne on that. Once we know what the new terms of trade are it will be possible to come back to you with a much more comprehensive roadmap of how we will get there. We have around 200 member firms. Some of them are hardly affected by the EU negotiations. For others it is mission critical. We would need to review it by cohort of membership.

Gary Campkin: I agree with what my colleagues have said. It is important, as the Prime Minister has indeed recognised, to deal with this issue. It is not just an issue for financial services. It is an issue for many other industries, but particularly those that are highly regulated such as ours.

The other point I would make is that it is really important for financial related professional services to avoid what has become termed as the “cliff edge”.

Anthony Browne: One other point about timing is that a lot of the decisions the banks make at the moment, or the contingency planning at the moment, are based on the fact, obviously, that we are going to leave the EU in 2019 and based on the scenario that we end up on WTO rules. The amount of time—this is the question you actually asked—to reorganise yourself to do that does depend on how complex your operations are. If you are a relatively small bank—I was talking to one recently that needed to set up a subsidiary in the EU with just 15 staff—you can do it quite quickly. If you have operations already there you can do it quite quickly. If you do not have operations there and you have worked out you need to move quite a lot of staff, it could take a very long time indeed.

One thing for the record, when we as an industry talk about the transition, the implementation phase or phase-in phase, we are not at all trying to use that as a way of delaying the UK leaving the EU. It is merely a mechanism to make sure we do it in an orderly fashion once we have actually left the EU, presumably in 2019.

Q432 **Toby Perkins:** Put simply, the first question is which market is currently the most significant for the UK financial sector’s export business, the EU market or the non-EU market?

Anthony Browne: Comparative figures for financial services as a whole? Our trade surplus for the EU-27 is about £27 billion. Depending on which



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sectors you are looking at, the EU can measure the EU-27 being about 40% or 60% of our global financial services exports. That is if the UK collects all the figures for it.

Gary Campkin: It is true that the financial and related professional services industry combined is the provider of the largest amount of exports surplus for the country. Again, not just FS but on the professional services side of things it is a national asset. That is based on the fact we have a global footprint. In the report we published today we made it quite clear that the UK's future will be a balance between looking at the market access we currently have with the EU and looking at developed and emerging economies elsewhere in the world and forging new trade and investment negotiations with them that cut new ground, what the trade calls "next generation agreements". It is one of the big opportunities coming from Brexit. In her speech the Prime Minister made a reference to a number of countries. We would certainly support that list. Indeed, it is important that we look creatively at new deals and new arrangements. It is not a question of saying which is more important. It is a question of looking at it in the round.

Q433 **Toby Perkins:** To follow up on that, in terms of those new markets the ABI suggested last week that the UK's priority should be around high-growth markets—India, China, South Korea and Indonesia—as opposed to what we might think of as more established or Commonwealth links. Would you broadly agree with that?

Gary Campkin: Each sector will have its own particular priorities based on its own calibration of the future. If you look at it in the round it is very, very important, not just for financial and related professional services but for British-based industry as a whole, to look at both developed and emerging economies. If I refer to some work we did a couple of years ago on TTIP and the value of a completed TTIP agreement to the UK, UK national income would increase by £10 billion per annum, real wages increased with a successful deal at a greater rate than in any other EU member state with a benefit to each household of £400 per annum and so on. It is not just emerging market economies; it is the balance between developed and emerging that is important.

Chris Cummings: It is a very interesting question, certainly in terms of the asset management industry. Whilst it is true the European Union is a major market for us, it would be a huge mistake to overlook those more developed markets, particularly the US, and I would say Japan, as well as the faster growing markets in China and Indonesia. The areas that are of particular note and interest to us are populations that are ageing in markets that are quickly maturing. That generates savings and people who are looking to invest longer term to cover pension liabilities. That also brings in local authorities and governments, depending on who finances what particular part of the pension and investment deal.

In terms of how we are looking at our trade and investment work, the US is right up there as the second market with Japan being third. We can



never forget China given that it is going to be worth £20 trillion plus in the next 10 to 15 years, hence the special focus that market will get.

By way of counterpoint, our members currently look after 310 billion of US money just of today. As I mentioned, we are one of the fastest growing export industries for the UK.

Anthony Browne: A few points; there are absolutely huge opportunities here. We should look at that and the Government is looking at that. The opportunities are not just necessarily on free trade deals, they are actually in market access agreements that could be done before or outside free trade deals.

In terms of which areas we should go to, which was your question, we have not gone through a ranking exercise yet. Some of the biggest growth markets might be some of the most difficult to get real movement on in terms of market access. From a pragmatic point of view, you might find some of the more established markets are lower-hanging fruit in terms of removing obstacles to trade.

The sorts of obstacles we are talking about are restrictions on ownership of subsidiaries. There are often countries with quite strict ownership rules. It would be good to make it easier for UK-based banks to own subsidiaries in other countries. Restrictions on appointment of staff such as board directors: quite a lot of countries have strict quotas for the number of local citizens who must be members of boards. In fact, that is one of the things between the Canada and EU CETA trade deal. There are quite often restrictions on employment of local staff and intercompany transfers from the UK outside. It is all of those sorts of agreements; we would like to remove all those issues. You can do that outside a free trade deal. You are likely to get more movement of that probably with some of the more advanced economies at the moment.

One opportunity that I think we have not really discussed very much as a country—it is not necessarily number one, but Switzerland has restricted access to the EU at the moment because it is not part of the single market. It is a big financial centre, Swiss banks, very big banks, it has a very similar regulation to ours, and there is probably quite a lot we can do there in terms of enhancing mutual market access.

Q434 **Toby Perkins:** What specifically would you want the Government to do to support your sectors in taking up those opportunities that we are talking about?

Gary Campkin: If I can I kick off, the most important thing is to understand the issues that financial and related professional services have. I have been very encouraged by the way in which the Department for International Trade has taken on that task. It has been very open in terms of access to try to understand the issues as the UK looks towards an independent trade and investment policy. Our existing links with the Treasury, with the Ministry of Justice, and BIS, and of course the Foreign



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Office, are all important. It is a whole-of-Government approach, and I think this is really important. One of the things that we have said at the TheCityUK that is critical as we move forward is to have team UK. That is the Government, the regulators, and the business community working together, because that is the way we can ensure success.

Chris Cummings: I agree with what Mr Campkin said. From our perspective, making sure that the Government are minded always about the regulatory coherence between individual markets and pushing for global regulatory standards reduces the friction and frictional cost, and also the ability for firms to trip up over local domestic regulatory requirements. A mind to regulatory coherence is the first thing.

Secondly, in terms of making sure that we are on the list; given the rush to support other industries, making sure that the asset management industry is part of the delegation planning. I think that is hugely important. Given the success we are having in the UK in what is sometimes termed "asset gathering", making sure that we are promoting the parts of the industry that have been most successful, that barriers to entry are just substantially lower, as they are in asset management compared to other parts of financial services.

Those two things are particularly important, but if I could make a plea for a third one, which is not to worsen the UK's competitiveness. At the moment, we are a reasonably attractive location, but of course attractiveness is a relative measure. We are concerned about the UK's ability to shoot itself in the foot, for want of a better expression, to worsen the attractiveness of the UK as a place to do business through falling out of regulatory coherence with other parts of the world, or with introducing immigration practices that stop the best and brightest being able to come to the UK and work. If you are managing Asian money, it is quite a good idea to have somebody who understands the Asian market here in London, capable of conducting those activities. Our plea would always be: make sure that we are match-fit as a country.

Q435 **Chair:** Free movement almost; global free movement.

Chris Cummings: A recognition that if you are going to be an international financial centre, being open to international talent is a huge bonus.

Gary Campkin: Could I add one point on that comment, Chairman? Of course, trade deals can encompass and do encompass GATS mode 4, which is temporary movement of people. Again, there is a whole range of ways that we can look to deliver that.

Q436 **Toby Perkins:** You have not had the opportunity to respond to the whole thing in terms of what the Government could do for the sector.

Anthony Browne: I refer to the answers from my predecessors. The Government regulators do need to start talking to regulators to improve regulatory understanding. You need the whole UK working together; the



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Government initiating those discussions with different jurisdictions. The Department for International Trade is already doing that. I appreciate it has to be done within a context of wider free trade agreements that are not just financial services, and that some of that will have to wait until we leave the EU.

Further to emphasise the point that Chris Cummings made, which is that in your previous session you talked quite a bit about deregulation, our priority as an industry is market access. We are not against deregulation, but what we do not want to do is abandon global standards, which then means we cannot access markets either in the EU, or the US, or across Asia.

Q437 **Liam Byrne:** Obviously, given the levels of exports from our financial services industry, it is pretty important that team UK is match-fit. Who is leading team UK, from your point of view? You said it was a whole-of-Government approach, Mr Campkin, but who is actually leading the team?

Gary Campkin: The Prime Minister.

Q438 **Liam Byrne:** When the Prime Minister is not running the country, who is in operation—day-to-day leadership?

Gary Campkin: As you will know, the way that these things work is there are Cabinet Committees that look at things like trade policy and trade dynamics, which are composed of, at the very highest level, the Ministers responsible for the Departments, and then there are working groups below that. As I say, I think, in our judgment, this has been a good start. We have not had any problems about access, problems about trying to understand our issues, and we continue to look forward to working closely with the Government to deliver good results.

Q439 **Liam Byrne:** It is a committee that is leading team UK?

Gary Campkin: The Prime Minister is fundamentally responsible for the direction of the country, with Cabinet responsibility.

Q440 **Liam Byrne:** What is the Secretary of State for International Trade doing, from your observation?

Gary Campkin: I think the first thing he is doing is running his Department effectively; secondly, building up capacity there, because it is very important to have a Department that is able to understand complicated issues. As I say, I think there has been a really good start there. Some of the issues surrounding questions about the WTO have been resolved very quickly. The statement that was made in December last year was incredibly important. If the Committee has not seen it, I point them in that direction, because it is really important that the UK, as a member of the WTO, deals with the tariff schedules and other issues related to WTO membership. The early statement from the Secretary of State was incredibly important.



Q441 **Liam Byrne:** We have to make recommendations to the Department about how it improves and upgrades its capabilities. Where do you think are the priorities? As a group, where do you think are the priorities for DIT upgrading its capabilities to go into bat better for you over the months and years to come? Do you want to start, Mr Browne?

Anthony Browne: In the very early days after the referendum, there was quite a lot of media coverage about the Government's organisation or disorganisation. It is quite difficult setting up two new Government Departments, and I think seven months on, the Departments are in reasonably good shape. We do not have any issues about the clear responsibilities of different Secretaries of State, whether it is the Secretary of State for Brexit, or the Secretary of State for International Trade, the role of the Chancellor in financial services, and ultimately they all answer to the Prime Minister. It seems to be functioning reasonably well now. We do not, as a trade association representing banks, have any particular criticisms about weaknesses in the Department for International Trade at the moment.

They are clearly going to need upgrade expertise in trade negotiations. They are hiring people and they are training people. These are very big, complicated negotiations that we have not nationally had any experience of in the past. In terms of what the Secretary of State is doing, he is obviously talking to different countries about opportunities for trade going forward, and working out what those opportunities are, and then where we need to push forward.

Chris Cummings: To give you a practical example, I have recently returned from China, leading a trade delegation with China. I found a remarkable joined-upness between Governments. I was not quite sure how it would be, but I found that DIT, both here in London, but also in post in China, had terrific understanding of what I was trying to achieve, what the business people I had with me were trying to achieve. I found that linked in very well with Treasury through the Financial Services Trade and Investment Board. In the conversations we have had with No. 10, I found that the officials had all spoken to each other about what had happened. It was, as I mentioned, a remarkably joined-up experience.

The three things I would look for: the first one is continued investment in staff in market, so that people understand the country that they are in—whether we can finally understand China or not I will leave to others. The second thing that is at a premium is industry knowledge, people understanding why they should be promoting which particular part of the industry at that moment in time; who we wanted to speak to in China to secure substantial mandates—that happened. The third is the trade policy nous to know what a good deal looks like. I would be keen to maintain those three axes and see them developed.

Q442 **Liam Byrne:** Great. Would you add anything to that, Mr Campkin?



Gary Campkin: I absolutely agree with what my colleagues have said. The only other thing I would say is a point related to the Foreign Office. The Foreign Office is a very small-spending Department, and one of the things that we do need to do as we look to maintain a global network of posts is make sure that our reach is really, really focused in on futurescape. That will, in our judgment, require more resources and more people. Again, just reinforcing what colleagues have said, the joined-upness is very encouraging at this point.

Q443 **Liam Byrne:** Final question then: obviously leaving the European Union is an opportunity to deregulate where regulations do not make sense. What sorts of things would you like to see go in this new era, Mr Browne?

Anthony Browne: One of the first things I did after the referendum was call for us not to have a bonfire of regulations and to implement the regulations we were already in the process of implementing, things like MiFID (II). I said earlier we are not opposed to deregulation in principle, but we are committed to the high global standards that have been introduced since the financial crisis. We do need to make sure the crisis does not happen again. We do need to ensure global coherence, which we touched on earlier, to ensure market access, but also ensure greater efficiency of markets.

As I said earlier, a real priority is to ensure market access to the EU, and then the other jurisdictions globally that we have been talking about. What I do not think would be in national interest is to tear up some bit of local regulation that we do not like and say, "Ha, we have done this", and then find out that nobody wants to trade with us. The sequencing really has to be: sort out the market access arrangements, agreements with the EU and other jurisdictions, and then if there are bits of regulation that we decide we do not need, and do not like, and it will not compromise our ability to trade with the rest of the world, you could then look at removing those. As an industry we do not have a big, long list of things that we currently want to get rid of.

Chris Cummings: From my point of view, I would agree with what Anthony Browne—

Chair: Briefly, if possible.

Chris Cummings: Yes. I would simply say that we are very mindful that the FCA does not get too far ahead of others, and do things deliberately that put us out of equivalence with the European Union or the US. There have been issues and instances in the past where the FCA has almost front-run things, and that worries me at this particular moment in time. Coherence, and not wanting to push us too far ahead, but no bonfire of regulation, maintain international standards, and for the FCA to become much more mindful of international standards would be a huge step forward.

Q444 **Chair:** Thank you. Before I come to the final point, I should note that



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such is the reputation of this Committee that a delegation from the Argentine Parliament was in watching part of the proceedings this morning. At least we in some way are reaching out across the world, and who knows who will be in next week. It could be Chile, it could be Bolivia, or it could be someone else. Who knows?

Finally, panel, just an overall inference I get from you is that you are not overly distraught by the prospect of leaving the single market. In fact, I might say you sound perhaps confident, maybe even bullish, about the prospect of the UK leaving the single market. Is that a fair assessment of the three of you this morning?

Anthony Browne: It presents big challenges to certain sections of the industry, particularly international wholesale banks. There is absolutely no doubt about that. We have been reading about some of the consequences of that, which have been widely reported in the papers. But it does present opportunities, and one thing I have learnt in life, particularly in this job, is we should embrace the inevitable.

Chair: I finished the last panel on an optimistic note, and I will maybe finish this panel on a reasonably optimistic note as well. Panel, can I thank you very much for coming in and sharing your expertise with us this morning? It is greatly appreciated by the International Trade Committee. Thank you.