HOUSE OF COMMONS

Exiting the European Union Committee

Oral evidence: The Progress of the UK's Negotiations on EU Withdrawal, HC 372

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[Watch the meeting]

Members present: Hilary Benn (Chair); Mr Jonathan Djanogly; Peter Grant; Jeremy Lefroy.

Questions 1285 - 1310

Witnesses

I: Iona Crawford, Associate, Freshfields Bruckhaus Deringer LLP; Sally Jones, Director for International Trade Policy, Deloitte; Mike Regnier, Chief Executive, Yorkshire Building Society; and Glynn Robinson, Managing Director, BJSS.

Examination of Witnesses

I: Iona Crawford, Associate, Freshfields Bruckhaus Deringer LLP; Sally Jones, Director for International Trade Policy, Deloitte; Mike Regnier, Chief Executive, Yorkshire Building Society; and Glynn Robinson, Managing Director, BJSS.

Q1285 **Chair:** First of all, welcome to our witnesses today. Sally Jones, Director for International Trade Policy at Deloitte; Mike Regnier, the Chief Executive of Yorkshire Building Society; Iona Crawford, Associate with Freshfields Bruckhaus Derringer; and lastly, Glynn Robinson, Managing Director, BJSS Limited. On behalf of members of the Select Committee, I express a very warm welcome to you and our thanks for giving up your valuable time to give us evidence today.

This is part of a series of visits that the Select Committee has been making throughout the country, and we have come to Leeds today—we are just discussing whether it is the first time formal evidence has ever been taken in Leeds, and someone will probably know the answer to that—to look in particular at financial, professional and business services, because there are a huge range of issues that we hope to understand better by the time your evidence is finished this morning.

We have a lot of ground to cover so if answers could be as succinct as possible, that would be really helpful. First, given all of the uncertainty that there has been, can you give us an indication of what contingency plan the businesses that you are involved in, or others that you are advising, have been making, and what impact you think the likely agreement this weekend—a political agreement on a transitional arrangement—might make to how those plans are taken forward or put on hold or whatever? If you are talking, if you can just press the button in the middle so the red light comes on. That is it. Thanks.

Sally Jones: Thank you very much. Like that? Excellent. This is very disconcerting.

Deloitte advises a range of clients on Brexit readiness, and we are also doing our own Brexit planning. What we are doing for ourselves is exactly what we are doing for our clients, which is, in effect, hoping for the best but preparing for the worst.

I would really like to emphasise that when we are advising our clients to prepare for the worst, that does not mean that that is necessarily what we think is going to come about. It is like taking a coin and tossing it 20 times and it coming up tails every single time, but by planning for all those tails, when we get a head, then fantastic, but if we get tails, we are ready for it.

Q1286 **Chair:** The fact that there is likely to be a political agreement this weekend: do you think that is going to affect the balance between hoping for the best and preparing for the worst?

Sally Jones: So far, talking to my clients around the firm, no, it is not making a change. What people are saying—and it is certainly the way I am interpreting it as well—is that we are very grateful for the fact that a transition will give us longer to prepare, but we do not yet have faith that the end state will give us what we want. Until we know what the end state is going to look like and whether we have regulatory coherence, or the recognition of professional qualifications that we want, or passporting, or broadcast licence rights, or life sciences ability to make market authorisations, we will have to continue to assume that we won't and prepare on that basis.

Glynn Robinson: It is equally disconcerting at this end of the table. BJSS as an organisation has very little exposure to the EU. We are adopting a policy similar to Sally's organisation, which is a "watch and wait and see" type approach.

The transitional agreement is good and it is a very positive thing, but really all it has done is bought a bit of time, no more than that. It is just a bit on the table. It is not something that we can hang our hats on. It is not something that our clients are hanging their hats on either. Our concern is not so much the transitional agreement but what is going to happen post that and the fears that go along with it. Organisationally, our concern is one around the general, broader economy taking a big hit, along with our growth, and also the broader access to talent much of it from the EU.

Chair: Indeed, and we shall come on to that in our questioning.

Iona Crawford: To take your points in turn, first, in terms of whether the political agreement this week gives us enough certainty to not implement our contingency plans, the answer for the moment is no. As lawyers, we are very conscious that there is no legally binding agreement on transition. As far as we are concerned, we would need very strong indications from the regulators on both sides of the Channel that we can rely on the withdrawal agreement, even though it is not yet completed, to continue to conduct our operations as if the transition period were agreed and a grace period were it to fall through. This would mean that, were the agreement to fall through, we would have until December 2020 to reorder our affairs such that they abide by the terms of the withdrawal agreement itself.

To take your second point on the contingency planning that law firms and lawyers are making, they are slightly different for lawyers as law firms, so barristers as opposed to big law firms like us. If I speak first on law firms, we have broadly three buckets that we are looking at. The first is structure. Often law firms use a UK limited liability partnership to export their services across the EU. You have a UK LLP headquartered in London, or anywhere else in the UK, and then you have UK LLP branches in other continental countries. In some countries, like the Netherlands and Belgium, that UK LLP may continue to be recognised post-Brexit, but there are other countries, like in France or Austria or Spain, where it will not and where there is not only corporate regulation but an additional layer of legal regulation we need to take into account. Sorry.

Q1287 **Chair:** No, that is very helpful. In the absence of an agreement that explicitly allows what you can do at the moment to carry on being done, it will fall back on what the rules are in individual member states?

Iona Crawford: Precisely, and the important point there is not just that it falls back to the regulations in each individual member state. It is that unlike financing, we have no passporting option. You do not get a passport option to the EU legal services market. What we do is go through one single market that is truly effective and functioning, down to 30 different sets of legal regulation, where you have very restrictive regulation in certain countries and much less restrictive regulation in others. It is the way that that pans out for structures—for example, in Austria, Austrian lawyers cannot be in partnership with non-EU lawyers. In France, non-EU lawyers cannot have a majority management or equity share in a law firm. These are all points we are having to take into account.

In terms of the time that we have for structuring, because we have to have discussions with regulatory authorities and tax authorities, we need to make sure that we hit the end of this year so that, if it were required, the new entities would be active by the beginning of next year, which is the EU financial year for tax authorities.

The second bucket for law firms is about people, and this particularly also applies to barristers. To benefit from the EU single market services, you need both EU nationality or EEA nationality, and EU or EEA qualification. Do you have the option to qualify elsewhere? For example, if you have been in a jurisdiction like Belgium for a long time, you can use the lawyers establishment directive, or at the moment you may have seen there are a lot of lawyers requalifying in Ireland. Alternatively you have an option for nationality that you could use, which many people do, like Ireland or other European countries. That is the second bucket.

The third bucket is in terms of specialisms. For example, I am a competition lawyer, and one of the things law firms are looking at is: do we need to bulk up our competition law team in Brussels or elsewhere on the continent in anticipation of restrictions that might prevent our lawyers in the UK from continuing to provide EU law advice, particularly with regard to competition law matters? The important point to note there is that if you have lawyers in the UK who can currently provide EU law advice, they may not be the ones who will be able to do it in the future. It is not a question of just moving the people across the Channel. It is a question of potentially—and this will be very dependent on what the end agreement is—losing jobs that you might otherwise have in the UK, and their being transferred to other EU jurisdictions.

Chair: Thank you. That is very clear indeed.

Mike Regnier: I was not sure which button to press. That is the wrong one. Is that the right one? Thank you.

From our perspective, Yorkshire Building Society, we are a national player in financial services. All the people that we employ are employed in the UK, the vast majority of them in the Leeds and Bradford area. All of our business is done here in the UK. What matter most to us are the secondary implications of whatever deal ends up being negotiated with Europe and what that then means for the broader economic consequences. For us, for example, the key measures will be what happens to inflation, whether there is an impact on unemployment, what happens to GDP, and also what happens to house prices—that is quite a big driver of the economics of the lender, obviously, and particularly one that is pretty much exclusively focused on mortgages.

For us, we are more interested in the second-order effects of Brexit than we are specifically with how the negotiations go, from a purely self-interested perspective. There are a couple of areas where it would be nice to see some clarity around things that would make it harder for us to do business. Things, for example, to do with covered bonds. At the moment it looks as though the cost is quite a lot more to issue covered bonds into Europe if we do not get some agreement around how they are treated post-Brexit, but then we all have our own little areas of interest. From that perspective, it is a broader, longer-term issue.

Let me answer your second question around, "Are you happy with where we have got to?" Again, anything that gives us stability and avoids sudden shocks to the system is welcome. We do an awful lot of contingency planning, but largely our contingency planning is around economic shocks and, as a regulated entity in financial services, there is very prescriptive and very specific contingency planning that we need to do around that, as part of the regulatory regime. Of course, that is fundamental to what we do.

Q1288 **Chair:** That is extremely helpful. Can I finish on one particular aspect of uncertainty, which is the forward validity of contracts that companies are entering into? For example, a contract to provide insurance to a German manufacturing firm against a claim of product liability, or a forward commitment to pay a pension to EU citizens who are living in other EU countries from a firm that is based in the United Kingdom. Another is on the outside of the area of professional business services—we are looking at airlines selling tickets 11 months or 12 months ahead, when there is a little bit of uncertainty at the moment, although people are saying it will be sorted out. Is that something that you have come across? Has there been discussion with regulators? Clearly, you are issuing a document in relation to a contract, and you are undertaking to fulfil certain terms. What are you meant to say, given the uncertainty that there is, including the possibility—although we all hope it will not happen—that the political agreement on the transitional deal would not then finally get approved. .That is something you have to deal with then—that would be the worst—so what do you do in those circumstances? Have any of you looked at that?

Sally Jones: I have not looked at it in the context of Deloitte. I have looked at contract issues for a number of my clients and there are two issues that have come up, I do not think either of which you have picked up on.

The first is that from a purely commercial perspective, very many of my clients have performance conditions written into their contracts, which they are very nervous they will not be able to fulfil going forward. To give you an illustrative example, one of my clients makes aeroplanes, and it is written into its contract that it has to be able to get a spare part to a downed aircraft within six hours. If your stock of spare parts is in Europe and your downed aircraft is in Heathrow, it just does not know whether it is going to be able to fulfil that going forward. That would be a purely commercial implication of Brexit border issues.

The second is that a number of my clients are going through massive, what they call "repapering" exercises, which is where they have a huge number of contracts, in the loosest sense of the word, which will need to move from their current location to a new location, and all of which need the counterparty to agree to that move. Sometimes there are literally thousands of such contracts that need to move. In the life sciences arena, for example, it would be marketing authorisations that are currently held in the UK and need to move to the EU, and need to be moved on a coherent, very time-scaled basis. If you have 500 or 1,000 of those, you need help to make sure that every single one of those contracts moves and is approved in its move by the relevant regulators. Again, it is a commercial issue that is being created because of Brexit.

Q1289 **Chair:** Thank you. Are there any other examples, any of you?

Iona Crawford: I cannot speak from personal experience in terms of looking at client contracts. What I can say is that for the firm at the moment, our contracts are with the UK LLP. In countries where the UK LLP may no longer be valid post-Brexit, we will have to change our engagement letters to show that the contract will be with whatever entity we choose, whether it is a German partnership or a French partnership. That is something that we are looking into. Although that will not stop the continuity of legal services because the same lawyers will be providing the services, it is just the legal entity and clients contract with the legal entity, not the individual lawyers, but it is nonetheless a consideration that we have on our radar.

Mike Regnier: Just one from our perspective, which is to do with data.

Q1290 **Chair:** We are going to come on to it.

Mike Regnier: We are going to come on to it. I will wait.

Q1291 **Mr Jonathan Djanogly:** Ms Crawford, could I just ask you? You were talking about switching contracts between entities. Will that impact on professional liability insurance?

Iona Crawford: A very good question. The two are very clearly linked. We are not yet at a stage where we have explored with our insurers how we tackle that, but it will be something that we look at because clearly, lawyers for various reasons cannot operate without professional liability insurance. It is neither good for us, nor is it good for our clients, so we have to look at that.

Q1292 **Peter Grant:** Good morning. Ms Jones, I wanted to pick up on your comment that clients are getting nervous about whether contracts will be deliverable. How long do we have before these people really need to have not necessarily absolute, legally watertight certainty but as close as, before we start to see them simply not going into contracts or taking out contracts with massive insurance against non-delivery? Can we hope to wait until March next year? Can we hope to wait until the agreement is approved in October this year, or do your clients need something before then?

Sally Jones: They definitely need something before March of next year but it varies on a case-by-case basis how much time any given company needs. One of the things that I find fascinating about Brexit is that you can have two companies that on paper appear to look very, very similar, but because of their specific facts, they end up having entirely different Brexit outcomes. I have some companies who are already saying privately, "If it were March 2019, we could not be Brexit-ready even now", and they have been contingency planning and implementing and executing on that for a while now.

I have some other companies on my books who have, by happy coincidence, very few Brexit issues and are very much comfortable to take Glynn's "wait and see" approach. I have other companies that have their Brexit readiness plan sitting on a shelf, knowing that they do not need to press go on the button to start the implementation until the summer or autumn or even, in some cases, Christmas. You cannot say, "This is the date" because it varies from company to company.

Q1293 **Jeremy Lefroy:** Good morning. Thank you very much indeed. I am going to come on to data. I just wanted to ask one question about other parts of the world and wondered whether you are seeing more interest from your clients in developing relationships and business in other parts of the world, given that the situation with the EU will change, and obviously hoping that business with the EU will be maintained or continue to increase, but on the other hand recognising that they may need to compensate and do business elsewhere.

Iona Crawford: Our clients are always looking at opportunities and we can service our clients across the world. At the moment, I think about 40% of our revenue is derived from financial services, for example, so there is very clearly an interest in whether or not we could continue to service those same clients if, for instance, their operations moved to the US. We think New York is probably likely to be the biggest winner in terms of financial services and legal work associated with it.

One point to note for us is that although they may be starting to be interested in other jurisdictions and we will be able to continue to serve them, often the relationship with our clients lies with relationship partners who are not there. They have built up relationships, often over decades, which lie in London, and that is a difficulty for us and transferring those relationships across.

Sorry, one more point to add is that often, in the US, your clients use one firm in the US, particularly if they are American clients, and then choose to use a law firm like Freshfields in Europe. If the work goes back to the US, we lose out because their original relationship is with a US law firm and not us.

Glynn Robinson: As I said, most organisations are always looking for areas in which they can generate business. Speaking from our organisation's point of view—it may be a side effect of the Brexit scenario—we have noticed in the last couple of years that we have had more help from DIT in order to help us generate revenue in other areas as well. It is almost not because of Brexit but we have started to see more of that coming through, which is a rather bizarre, maybe, side effect of this.

I do not think you would force that position because of that. It has to be there anyway. You cannot force it. Does that make sense?

Q1294 **Jeremy Lefroy:** Shall we move on to data, then? How do your sectors rely on the seamless transfer of data across borders? Obviously we have the Data Protection Bill going through Parliament at the moment. Is that going to help the situation as regards future transfer of data between the UK and the EU? What other things do we need to see, if any, in order for a data adequacy decision made in time? Who would like to start on that?

Sally Jones: We are nothing but people and knowledge. We do not make something; we do not provide a service. It is delivered through people and knowledge. It is critically important to us that we can flow data.

The General Data Protection Regulation, which is currently being enshrined into UK law, is going to have to be implemented by all UK companies because it comes into effect in May. A lot of companies seem to be taking the view that because at the time of exiting the EU, whenever that will be for practical purposes, the UK and the EU are going to be entirely converged, it ought to be a relatively straightforward thing for the UK to be given an adequacy decision. The problem is there is quite a lot of agitation from some continental countries along the lines that things that are domestic UK matters, like the Investigatory Powers Act 2016, go too far for their tastes for them to be comfortable with the UK getting an adequacy decision.

Even if we do not get an adequacy decision, that is not killer because there are only seven countries in the world that do have an adequacy decision. The US is not one of them, for example. It is solved in that context by Government-to-Government agreements. In the case of the US, we have something called Privacy Shield, which effectively enhances the rights of EU citizens to privacy in respect of data held in the US. We could negotiate something like that. Even if there is not a Government-to-Government agreement, then individual companies can take steps to ensure that they are able to demonstrate to Europe’s satisfaction that they are holding and managing private data appropriately.

From our perspective, it is something that we are watching very, very closely. It is vitally important to us that we can flow data, but we are not at the stage where we are massively concerned because a number of different things would have to go wrong before it would come to the top of our agenda.

Iona Crawford: Our main interaction we have had with data has been from big telecom clients. Although we are following GDPR ourselves and we do have data flows, the impact has been much more one we have seen from big clients coming to us and saying, "Our chief concern in Brexit is data. What can your IP and data experts do to help us plan for it?" For us, it is really a much bigger issue for our clients than for ourselves, to a certain extent.

Q1295 **Chair:** Can I just add one question on this? A third of the options that you referred to, Ms Jones, presumably, is that a standard contract clause? Is that kind of approach company-to-company? Is it not the case that that is being challenged by the case in Republic of Ireland? There are those who have taken, as I understand it, court cases before against decisions the Commission has made in issuing data adequacy decisions, and it is always subject to how those cases might ultimately pan out in the courts. Is that right?

Sally Jones: Any time there is a court decision, companies need to react to it. We always pay attention to court decisions, but that, to us, is business as usual, rather than something that we would put into our Brexit bucket as such.

Glynn Robinson: I do not think you can overstate the importance of the data. You have mentioned big telecom companies, but it is not just the big telecom companies. It is pretty much all organisations who are doing a form of commerce at any level. Even from organisations that have data centres for specific services, there is just masses of it, then organisations who are offering services to UK residents now, with data transfers back into Europe before it comes to our desk—you would not see it but it is there, and we see that for our clients. The technical point I could not comment on, but the importance of it, you just cannot underestimate that. While you say it does not pop to the top of importance, in terms of a cliff edge it is a real fear. There would be no point having a trade agreement if you did not have data adequacy by that time; it would be meaningless. From a technical point of view, it is massively important to sort that out and get some clarity on it. If technical solutions are required around data, that will not be a straightforward, simple thing to do and it will not be quick.

Mike Regnier: Thank you. From our perspective, obviously we have hundreds of suppliers that work with us, and that use our data in one way or another. As part of the GDPR regulation that is coming in May, we have been reviewing a number of those contracts to make sure that we have the appropriate controls, and that those third parties have developed the appropriate controls over the customer data that they are dealing with. For some customer data you remain liable if you are unable to do it. While we have the bonnet up on those contracts, if you see what I mean, we are starting to think about how we can take account of the additional complexity across all the data flows. We have not figured it out yet. It will be one of those things that we get to.

Q1296 **Jeremy Lefroy:** Is there anything else on data? Just one final question from me. It is regarding the fact that we tend to talk about manufacturing and services as two completely separate entities, when in fact manufacturers are more and more service companies now. If you take the example of Rolls-Royce, for instance, it sells power. It tends not to sell the engines of the vehicles, so they are delivering power. Are you seeing from your clients or those you work with any issues regarding the fact that there is not this clear divide between something that is manufacturing and can be dealt in this way, and something that is services and being dealt with in another way? Therefore, is there an impact on things like, clearly, data, but other areas, financial services and so on, and the way those are treated, or manufacturing?

Sally Jones: In that regard, what typically happens is that companies that are like that, that have a trade in goods and a trade in services element to them, oftentimes will recognise the goods issues first because it is easy to understand. The barriers are typically barriers that occur at the border, and everyone is talking about tariffs and they are talking about delays, and they are talking about additional administration.

It is when they start to think deeper about what their business model means that the services issues get picked up. If you are a company that manufactures high-tech, big equipment, almost inevitably you will also have a contract to maintain it and service it. It is all very well to be able to get the original piece of equipment from the UK, for example, to France. If you cannot then get replacement parts from the UK to France, or you cannot get an engineer who is appropriately qualified and can sign off a safety certificate from the UK to France, then it suddenly looks like an a lot less attractive proposition to a French client.

Iona Crawford: May I add also that if you are providing these services, these after-services, you have very tangible difficulties with customs and tariffs for the tangible items, but there is no guarantee that, for example, without agreement, the engineer's qualification will be recognised in the country they are going to—say, from the UK to France—in order to be able to sign off that certificate in the first place? An agreement on goods without some kind of agreement on services, and one that is comprehensive, perhaps more so than any free trade agreement that has gone before, is incredibly important because the whole economy otherwise will be affected.

Sally Jones: I would just really like to emphasise the point that I made earlier. The barriers for goods are very well understood because they are at the border and at least some of it is in the UK's control, but oftentimes the barriers for services are behind the border. You have to look at the domestic legislation in every single one of the countries that you want to trade in or with to understand what the implications are, which makes it multiple, multiple times harder to understand whether or not you have a problem than it would be for a straightforward goods business.

Iona Crawford: Maybe one point to add to that would be that Sally makes it sound as if the regulations are all clearly understood. One of the problems we have had is that, at least for legal services, we have been talking to multiple other firms, Magic Circle and otherwise, about, for example, what the regulation means in France, and what it means in Germany. There is no definitive answer; no one can give a definitive answer on what these mean for us post-Brexit, if that is what it comes down to, because no one has looked at them for 30 years. Even though we say that there are these regulations, what we mean is that there is something written down somewhere that may not be very successful, but that does not mean that we understand them or that we even understand them in the same way as the regulator is enforcing them there. That is a really important point to get across.

Q1297 **Jeremy Lefroy:** Just finally one general point. Whatever happens, obviously we all hope for the best possible free trade agreement, an outcome is likely to be that more UK businesses that are wanting to work within the European Union will need to set up subsidiaries there, whereas previously they operated from the UK, whether that is in professional services or manufacturing or whatever. Are you seeing that happening already? Obviously that is what they are doing around the rest of the world anyway. How will you see the outcome from that? To some extent, if a UK company has more of a presence in another market, perhaps through employing local people there, it might in the end be an advantage because you have more local knowledge, as opposed to just sitting in the UK and doing everything from the UK. Are you seeing that, and are you seeing people say, "Perhaps we can turn this a little bit to our advantage in terms of outward direct investment that then enables us to get a better understanding of markets that we have not had for the last 20 or so years"?

Sally Jones: The short answer is yes, we are seeing exactly that. Businesses are looking to set up subsidiaries or branches, or some other means of having a commercial presence in Europe if they do not already have one. Again, one of the interesting features is that companies are saying to us, oftentimes, "The UK is our plan A, but now we have a plan B, and the more we are looking at plan B, the more attractive it seems to us. Maybe we should have been looking at plan B all along. This is a once in a generation opportunity to review our business model, and there is stuff that we can be doing that is a genuine opportunity to us as a company in Europe or beyond".

Q1298 **Jeremy Lefroy:** Are there any other comments on that?

Iona Crawford: I would just echo what Sally said. We are also seeing clients who want to set up entities, particularly clients in industries such as airlines, where they very much need to be in the single market in order to continue their business, full stop. What we have seen are the entities being set up, but they are not perhaps being set up as fully-blown businesses, at least for the moment.

Q1299 **Mr Jonathan Djanogly:** This Committee has taken quite a lot of evidence in relation to goods and tariff barriers, and of course here we are talking about non-tariff barriers. I would like, if I may, to take a step back from the specifics—Ms Crawford gave us a very good list of how it will affect the legal profession.

If we could just go a step back from that, perhaps to address this, Ms Jones, wearing your more general professional services counsel hat. Today we are talking about service, so this is your chance to speak up for the 80% of GDP and four in five people in this country who are services rather than goods-related, and that obviously covers many more areas than are represented here today, from design to culture to education to tech, broadcasting. On and on it goes. Could you just identify what are the non-tariff barriers that Government should be addressing? I am not hoping for a reply to all of them.

Sally Jones: No pressure to represent 80% of the economy. If I were in your place, I would be thinking of three fundamental issues. In the context of services, you always have to be thinking of the people and access to talent. You can break that down further if you wish. You can break it down into the ability to import talent and export talent as you need it. You can talk about the ability to train local talent to replace any exported talent and imported talent you can no longer manage, and you need to talk about the costs associated with that and wage inflation, particularly in the context of—I hate these terms; I am using them because they are used in immigration—low-skilled and unskilled labour. Those are the ones where you will really struggle to replace EU workers that are currently in the UK. There is a big bit around talent.

Then you have a big part about regulation. Free trade agreements, at least in the context of services, are all about reducing or taking away entirely barriers that are regulatory in nature. For our business, professional business services—and recognising that we are something like 13% of GDP in value-add—it really boils down to two things. It is a need for recognition of professional qualifications, which is not just for us, it is more broad. You spoke about engineers, but there are many others in the healthcare environment—indeed, it might be anyone who has a professional qualification, and whether that will continue to be recognised.

There is also a wider point: will our regulators continue to be recognised as the competent authorities that in fact they truly are? Regulation would be the third bucket and that applies to everything from banks, to pharmaceutical companies, to broadcasters, and to telecoms companies. Everybody who provides a service is in that area.

The third bucket is data, which we have already picked up on, but everything that we are seeing broadly boils down to one of those three categories.

Q1300 **Mr Jonathan Djanogly:** We should say that we have heard evidence that the UK has not been doing enough to identify what we want in terms of services. Do you, as a panel, agree with that? How confident are you that the Government understand the barriers to each sector and how they differ? Ms Jones, you can finish and we will go on to that.

Sally Jones: The first point I would make is that my dealings with Government are very often with the officials, primarily with the Department for International Trade, Business, Exiting the EU and the Ministry of Justice. To a person, they are hardworking, dedicated, bright individuals who are incredibly dedicated and understand their portfolios and their briefs to a remarkable degree. I cannot praise the civil servants that I interact with highly enough. They are amazing people.

The problem that they have oftentimes is that they are like an arrow on a bow that is nocked and ready to go, but they are not quite sure which direction they are going to be pointed in. The sooner they get the direction, the more effective they can be.

Q1301 **Mr Jonathan Djanogly:** That is a very interesting analogy. Thank you.

Mike Regnier: I suppose the question for us in financial services—that is a very important sector, and not just in London because 70% of financial services are outside of London—is making sure that there is a sensible solution for the sector. That is really important not just for London but for the rest of the country as well, and for Leeds and Bradford.

A big area for us is understanding what we can negotiate as part of the exit, but equally important is what structures we are putting in place post-Brexit that we are going to then have to deliver. The classic example for us in financial services is the fact that the European regulations that govern how financial services work in the UK are driven by this concept of having a single book, where everyone has to comply with all the rules, which broadly are determined for the good of the systemic international banks. If you happen to be a one branch building society based in Monmouth, you have to follow all the same rules. It clearly is disproportionate, but that is the way the rules are set up.

The challenge for us is based on how those rules are then translated into UK law in future. For example, the CRR, which is the main body of law, runs to 337 pages, and the technical standards that relate to it run to several volumes. If we are not careful and we put all of that regulation into primary legislation, which is the default mode, then it will be very, very difficult for any regulator post-Brexit to be able to take a more proportionate approach. I welcome the fact that the Chancellor has laid out an approach that is to say that a good regulatory outcome should be the focus, not necessarily keeping with the existing regulation. Andrew Bailey and Sam Woods of the FCA and PRA have said exactly the same thing as well. There are other ways in which that regulation could be transposed into UK law, and it does not all have to be into primary legislation. For us, fairly material things like that would leave us in a more nimble and agile world post-Brexit, which we can influence now if we spend a bit of time thinking about those, as well as the best deal that we can negotiate. We need to do better on those things.

Iona Crawford: Going back to the point that Sally made about the arrow, I can very much agree with that. In fact, Sally and I have been in various meetings with Government together where civil servants have been very dedicated, sharing their knowledge, to use the papers that we have submitted to them. The engagement we have had is not just with the civil service; it goes up to the very top. Similarly, with ministers as well.

To pick up on the point about asks, I have with me the professional business services asks leaflet that we put together, which I can provide to the Committee afterwards. For legal services we have a very similar document, which sets out in broad terms the three things that we need from a trade agreement, which will comprehensively cover us. The first, to use a slightly technical term, is to provide legal services under the four GATS modes, which basically boils down to: we can go to the client whenever, wherever, and provide whatever advice they need in Europe post-Brexit.

The second is the mutual recognition of qualifications, which Sally touched on. For us, it is not about the regulator, it is about the individual person and where they are qualified.

Thirdly, it is about the cross-border establishment of entities. Can you export your UK LLP across Europe, or do you have to set up a subsidiary? That is a very real concern, not least because for us there are certain jurisdictions where the UK LLP as an entity is allowed, but a UK LLP as a vehicle for a law firm is not. We have a slightly contradictory position where we have had responses from people saying, "But the UK LLP is permitted" and then you look a bit closer at the regulation of the legal services sector and you find out that in fact it is not. For us, things are a little bit more tricky.

Mr Jonathan Djanogly: Do you have anything to add, Mr Robinson?

Glynn Robinson: My organisation is primarily aimed at digital services. I have not spoken to the Ministers or the civil service specifically about that, but I would emphasise that in the UK we have a number of organisations who pretty much are the leaders of the world in digital services, or have always been the think-tank. I would like to think that this Committee and the broader Government are listening to the concerns that we have. Those skills can and are exported into the EU and the broader global market, and we need to ensure that that is not hindered in any way by any trading barriers at home.

Q1302 **Mr Jonathan Djanogly:** Thank you for making that important point. If I could, just finally, if we have the time: have any of you tried to quantify the impact of leaving the single market? The Government and the EU are talking about CETA—I think the EU more in terms of CETA straight and the Government more in terms of CETA-plus-plus-plus-plus. Have you looked at this issue at all, anyone?

Iona Crawford: We have, actually, at the request of the Government. What we have found, at least speaking with my professional hat on, is that it is incredibly difficult to do because our service is so integrated. How do you, for example, break out the value of being able to fly into Frankfurt when negotiations break down, be with your client and broker an agreement, when that may be a small part of the mandate, but that is when the client really needs you and that is when the relationship counts the most? We have done some very broadbrush analyses such as, if you can no longer practise EU law at all, what would that mean? I am not sure they would stand up to scrutiny.

The final point to add is that the repercussions on law firms will be different in the sense that big law firms who have, for example, big EU competition law with practices mainly in London will very much feel it there, but it is not limited to big law firms. It is also the smaller law firms who do not have the opportunity to recalibrate their operations, such that some of the business transfers across to EU offices. For them, they may not have EU partners, so their loss will be a total loss. For us, we could find solutions to some of these issues, but the Government may not like the solutions we find. As Sally said, for us, the qualifications attach to the individuals, and not to the products or the regulators. So if you cannot move the lawyers then the jobs go elsewhere.

Q1303 **Mr Jonathan Djanogly:** In broad terms, law is—I do not know—1.5% of GDP, is it?

Iona Crawford: Exactly, yes.

Q1304 **Mr Jonathan Djanogly:** Then, in five or 10 years' time, is it going to be 2% of GDP or 1% of GDP?

Iona Crawford: It is very difficult to speculate, first because even within that 1.5%—I know that, for instance, 55% of the business services exports is going to the EU, and 25% of that is legal services. I do not know to what extent in future we will be able to keep that 25% because it will very much depend on whether or not there is a comprehensive agreement for legal services. If there is, then it may very well thrive. There are 322 jurisdictions in the world, and 27% of those are common law. There must be opportunities out there we can benefit from. For us, as a firm, in the immediate and short term, the EU market is really critical to us. As a firm, if there is no agreement, we will definitely see, at least in the UK, a reduction in our revenues.

Sally Jones: I would like to really emphasise the point that Mike made right at the beginning, which is that, for us, the fate of the UK economy is probably the single biggest determinant to how well we do as a firm. We will follow our clients. If our clients stay here, then we will stay here, but if our clients move significant operations to, for the sake of argument, Frankfurt, then we will have to recruit more people in Frankfurt. It genuinely is as straightforward and simple as that for us.

Q1305 **Mr Jonathan Djanogly:** Thank you. Is there anyone else?

Mike Regnier: From our perspective, as I mentioned earlier, it is the second-order effects that affect us most. Certainly, when we have reviewed the Government scenarios about the impact of Brexit, from a regional perspective, it looks as though London is probably going to be least affected under those various scenarios. Our concern is that we need to make sure that the regions where we are today still get the degree of focus that they need to improve the connectivity and skills that will enable them to improve local activity and co-ordinate value-added and output up towards the rest of the country. Here in Leeds and Bradford, we are about 20% behind the UK as a whole. We need more of an opportunity for us to continue to make sure we focus on those areas outside London where that continual investment will enable us to grow in future.

Mr Jonathan Djanogly: A point well made. Thank you very much.

Q1306 **Peter Grant:** We touched earlier—I think it was a point you mentioned, Ms Jones—on the possible implications of your ability to recruit talent and staff from outside the UK. If we look at your own businesses and similar businesses, and at the clients that you have, how important is it for you to continue to be able to recruit staff from across the European Union? If you were allowed to make the rules for immigration post-Brexit, what would you want for UK immigration legislation to protect the sectors you work in?

Sally Jones: Deloitte employs just slightly less than 18,500 people in the UK. Of those, 25% are not British nationals, and it breaks down to about 10% EU and about 15% rest of world. Those are the statistics. For us, it is incredibly important to be able to keep recruiting the right people for the job, irrespective of where they originated from.

What we would want from an immigration system is the ability to bring people to the UK without undue admin burden, without undue delay. That is all we ask for at a fundamental level.

There is some evidence—anecdotal, but nevertheless there—that every person we bring into the UK because they have special talents or special abilities that we need, helps to train the UK workforce purely by working together, and then we export those talents back out again. It is not as straightforward as saying, if we recruit a German national because he or she has talents that we do not have in the UK, that those talents will not flow throughout the rest of our workforce.

Mike Regnier: It is a bit less relevant for us because over 95% of our employees are UK nationals, based on the geography of where we are based, so it is not such a big deal. We clearly still need to attract talent, though, which goes back to my point about skills and investment earlier—but it affects us much less than many other organisations.

Iona Crawford: I agree exactly with what Sally said about what we want from immigration. Law is slightly special in that English law is part of the UK's culture and a massive soft power export. For us, one of the benefits of being able to bring in the brightest individuals from the EU is that, for example, 4,000 last year came just to train as English lawyers. Many of those may not stay in England in the long run, but what they do is go back into the EU with their familiarity with English law, with their training in English law, and ensure that English law remains one of, if not the leading global law for business. For us, that is really critical, not just because it ensures that in future our services are still required but because you also have the point that the UK's soft power continues to be protected, not just across Europe but across the world.

Glynn Robinson: We employ around about 1,000 people in the UK, of which 14% are EU nationals, or non-UK nationals. That is interesting. What is more interesting I think is we have grown fairly rapidly over the last couple of years, and if you look at the average tenure for our non-UK, EU workforce, that is around about one year. What we are saying is that that has helped us grow over the last few years, the ability to bring that qualified staff into our workforce.

Clearly, an organisation like ours would require that relatively seamless ability to bring people into the UK, but it is also important for it to go the other way as well. Our organisation, predating myself, got its leg-up because it was able to send people over to Austria to work for a large Austrian client. It has been a massive help. That ease of labour transfer is critically important to our business and to all businesses.

Q1307 **Peter Grant:** Could I follow up on that last point with the rest of you? You are touching there on the short-term movement of people. Even if they intend to be going to work in a permanent job but only stay for a year or so and then move on, to what extent should your businesses rely on the ability to have people moving out to other branches, to other companies in the same group, for a period of time, either for experience or training, and especially if you have to change your company structures to operate within EU afterwards? Do you foresee any difficulties with being able to continue to move your talent around the organisation to where it can be most effectively used?

Sally Jones: In any average year we will send more than 1,000 people from the UK to somewhere else, and that can range from very short-term, reactive movements, so a client phones up on Monday and says, "I need an IT specialist" or whatever it might be, on Wednesday, and we can provide it at very short notice, or it can be longer-term. It might be that a project requires the best person on a particular subject for three months or longer. If you think that we have 18,500 people, and 1,000 of those in any given year will move across border to service clients, it tells you that it is a really important thing for us.

Iona Crawford: We probably send about 10% of our lawyers in London on secondment, whether it is to clients or to our other offices. For clients, that may be anything from a call at 9.00 am on a Monday, saying, "We are being dawn-raided by the European Commission. You have three hours to get here".

Peter Grant: Surely not.

Iona Crawford: Then those lawyers do not just go in for the day. They go for two weeks. Anything from a short-term secondment like that to a secondment for six months, which is quite regular in some of our teams that specialise in EU law. They might go to Brussels for six months in order to build a relationship with competition law teams in Brussels.

It is very important, but for us, because it is all reliant on the fact that a qualification is recognised in those countries, without a comprehensive agreement in future on mutual recognition of qualifications, the actual immigration framework will not make any difference. If a UK lawyer cannot do competition law in Brussels, there is no point sending them there. For us, immigration is a secondary consideration.

Just a point that Glynn made about net migration. We have a large number of EU lawyers coming across for experience, but it nets out to virtually nothing because they all stay for about two to three years and not any more than that.

Glynn Robinson: From my point of view, going back to something Sally said earlier, you need the ability as an organisation to go where your clients are. I appreciate that this year that may not be Europe. Next year, it may be Europe. A few years ago, it definitely was Europe. That has been relatively straightforward for us to achieve that. We also send people off to America as well, and that is not as straightforward. Frankly, one of those is a lot easier to do business with, and one is not. I know which model I prefer. It is a lot easier to send people to Europe. I would not want to end up in a situation where it is as difficult as it is to send people to other places in the world.

Q1308 **Peter Grant:** Could I finish with one question for each of you? There are some members of the Committee and some Members of Parliament who think that leaving without a deal would not be a major problem. Indeed, some actually seek to promote it as the best answer.

From the point of view of your businesses and the sectors of the economy you are working in, what would the consequences be if in March 2019 we were out of the European Union and there was no deal in place on our future relationship?

Sally Jones: That is a question. I am going to start with a general answer and then get a little bit more specific. Many of the businesses that I speak to are saying what they want more than anything else is certainty, because they can plan for certainty. Some of them, if you said, "We are going to leave on 30 March without a deal" and we know that today, would find it easier to manage than a process where we might leave in March without a deal or we might leave in December 2020 without a deal, or we might be fine. It is the uncertainty that is as problematic in many ways as the end state to which we end up.

If we get more specific to the accounting profession and audit profession, not having recognition of professional qualifications and not having an equivalent to the Statutory Audit Directive would be really problematic, both in terms of UK-parented groups who have overseas European subsidiaries, and need to rely on the work of our EU colleagues and the audit piece that they sign off when we do the consolidations, or if we are talking about EU incorporated companies listed on the UK Stock Exchange, of which there are about 70. You could potentially need two separate audit reports and all kinds of duplication. If you need a UK audit report for your listing and an overseas audit report for the fact that you are incorporated overseas, that becomes a really problematic administrative issue for them.

Q1309 **Peter Grant:** Thank you. Any impact on your profession?

Mike Regnier: It depends entirely on what that would do to the economy and, frankly, from that perspective, I will take whatever data we are given by the experts who know what impact that would have and model it and work out what it means for us. It is as simple as that, really.

The other thing I mentioned earlier is that it also depends on how the regulatory regime has been transposed into UK law. It would be unfortunate if we do find ourselves in that position if we then make it very difficult for us to be able to react and be nimble, which surely must be one of the advantages of not being tied to Europe. I would love to see that.

Iona Crawford: This can be divided into two points. The first is one that Mike has already touched on. As a services business, we go to where our clients are and we do what they would like us to do. To a certain extent, the impact on the broader economy of a no deal scenario will dictate what happens to legal services.

The second bucket of legal services itself: we have to ask, what does the single market do for us at the moment? I realise that the single market is not effective in all service industries, but for us it really has been effective. It is easier for a UK lawyer now to go to Paris and practise law there than it is for a New York lawyer to fly to Chicago and practise law there. It has been truly effective, and I think that shows what we stand to lose. We are going from one truly single market down to a panoply of 31 states—30 if you exclude the UK—with different sets of regulations, different levels of enforcement.

We know from the past that the EU is not averse to enforcing those regulations. To give you just one example, at the end of the 1990s there were 29 English lawyers who were about to stand trial, being prosecuted by the Piraeus Bar for practising law, and that was in anticipation of the Lawyers' Establishment Directive that came in shortly after. To a certain extent now we are seeing a tightening by the Bars of regulations that they may not have been enforcing for years, and they have suddenly, because of the EU and Brexit, started considering, "What are our regulations? How are they being enforced?" Anecdotally, there have been partners in certain jurisdictions who have been practising for years, for instance, without an EU qualification, and they have been given months to find one so that they can continue to practise.

Those lawyers are not EU nationals and they are not EU-qualified, and that is the problem. That just shows what we are up against. It has been so effective so far and we stand to lose that if there is no comprehensive deal with legal services.

Glynn Robinson: Yes, "What a question" is still the answer to that. Going back to what Mike said again, the impact on the broader economy is what will be the impact on us, and if a no deal scenario means that certain jurisdictions turn the taps off their investment very rapidly because they have other investment in other areas to comply with the different regulations, that will be a big impact.

There are so many different scenarios, it is almost impossible to pan them out and play them out. With our businesses, they are good businesses, they are nimble, they are flexible, they are agile, and they try to find a way of getting through. That does not mean to say they advocate a model that will not deliver, but businesses do try to survive. They try to find a way of going to the clients and finding where the revenue is.

Sally Jones: On that note, and this is a personal opinion, I worry about small and medium-sized businesses far more than I worry about large businesses. Large businesses will be able to put time and effort and resource towards finding a solution, and almost always there will be a way of getting around the problem. If you are a small or medium-sized business, you just do not have the bandwidth to do anything other than business as usual.

Iona Crawford: Just to add to Sally's point about small and medium businesses, for us, the problem with the barrister profession is that it is a profession of one-man bands. Their product is their intellectual output. If they are no longer allowed to do that, they cannot just find an alternative. That is their livelihood; that is their practice. They are the ones who are most affected by this.

For legal services as well there are regulation barriers, but to a certain extent I emphasise that English law will remain a leading global law. Although there is an impact, clearly, on how we provide legal services within the EU, London in particular will remain a legal services centre because the characteristics that make it so will endure post-Brexit.

Glynn Robinson: One more thing I forgot to clarify. That is an absolutely, tremendously valid point. The reason a lot of organisations are taking the wait-and-see approach is because they are running their business. They are running it day-to-day, and they are trying to build and grow the business. One of the things that the Government should do, irrespective of the way this pans out, is find a way of giving more information to those businesses in a timely way to help them, especially the small and medium-sized ones, perhaps more than the large ones. Unless that help is given, you do not know what plan to take in that sense.

Chair: To pick up Ms Jones's analogy from earlier, that requires those in charge of the bow to decide in which direction to point it, but we are still waiting on that.

Q1310 **Jeremy Lefroy:** Very briefly, I fully take what you have been saying about recognition of qualifications and how vital that is. Putting that to one side, if, for instance, there was a mutual arrangement between the EU and the UK where, for instance, citizens were able to go and work in the EU from the UK or in the UK from the EU for, say, a period of two years without having to go through the work permit procedure, would that be something that you would find to be very valuable to your businesses? Not unrestricted freedom of movement, but a limited ability to enable particularly young people—although not just young people—to continue to operate as they have done over the last 25 years or so.

Sally Jones: My answer to that would be yes in some regards and no in others. There are certain parts of our business where that would work very well. Providing tax services is one example that is in the UK an unregulated profession, and in many but not all EU jurisdictions it is also an unregulated profession. If a tax adviser wanted to spend two years in Germany running a UK desk, that would be helpful.

For others, such as our auditors or our insolvency practitioners, being able to go for two years would do them no benefit because they could not sign an audit certificate or an insolvency report while they were there. It comes back to Iona's point that it is not just about the immigration system. It is about what somebody can do once they are in the territory.

Chair: That concludes the session. It strikes me, listening to what you have been saying here today, that we have been discussing the future of, as was pointed out earlier, 80% of the British economy, and yet it seems even to us, although we have looked at this before, that in the general public debate about Brexit it gets relatively little attention.

The second observation I would make is that for something apparently so simple, it is in fact really, really complicated. That is what we are trying to understand and others who are working on it are trying to resolve to the benefit of business.

Can I say on behalf of the members of the Committee here today we are extremely grateful to each of you for coming today and for giving such really informative and useful evidence, which I hope you will see reflected in our future reports and recommendations? Thank you.