

European Scrutiny Committee

Oral evidence: [EU Withdrawal](#), HC 763

Wednesday 13 June 2018

Ordered by the House of Commons to be published on 13 June 2018.

[Watch the meeting](#)

Members present: Sir William Cash (Chair); Steve Double; Mr Marcus Fysh; Kate Green; Kelvin Hopkins; Mr David Jones; Andrew Lewer.

Questions 441 – 530

Witnesses

I: John Glen MP, Economic Secretary to the Treasury and City Minister; Katharine Braddick, Director General, Financial Services, HM Treasury.

Examination of witnesses

Witnesses: John Glen MP and Katharine Braddick.

Q441 **Chair:** Thank you very much indeed, Mr Glen, Economic Secretary to the Treasury. We are extremely grateful to you for coming. We are going to be discussing all matters relating to the question of financial regulation and things of that kind. We are glad to see Katharine Braddick here as well. Thank you very much for coming. Of course, as and when you feel it is appropriate, perhaps you would like to ask her to answer a question or two.

John Glen: It is my job to try to stop her from talking. That will be my success. She says she is happy with that.

Q442 **Chair:** We managed to restrain ourselves from taking part in the debate this afternoon on the basis that several of us have said quite a lot already.

The first question I have for you is this: have you prepared a detailed legal text on financial services in the new trade agreement for consideration by the EU and, if not, why not?

John Glen: We are not yet at the point where we are negotiating on financial services. We have a whole range of options and a whole range of dialogues going on to understand the likely negotiating position and we are in deep preparations on that. At this point, I do not want to set out how we would conduct those negotiations before we get to that stage, but we are ready for that negotiation.

The best way of characterising the position we are in is by referring you back to the Chancellor's speech at HSBC on Wednesday 7 March, where he set out the interests of financial services, how we approach them and what is important.

Q443 **Chair:** Of course, he had some slightly worrying things to say about the question of alignment in that speech, as I recall. Do you have any thoughts on that?

John Glen: He set out three very clear principles around the alignment of regulatory outcomes, the need to have supervisory co-operation and the need for institutional processes to manage deviation and change. Quite appropriately, at this point in a negotiation that has not yet happened, the detail of exactly how that will play out is a matter for the negotiation. He was trying to be pragmatic about the need to recognise that at this starting point we are enjoying or subject to the same regulation across the EU. It is from that starting point that we negotiate our exit position.

Q444 **Chair:** You are quite clear that the Treasury is not the heart of remain, or would you think that it was?



HOUSE OF COMMONS

John Glen: I want to be absolutely clear about this from a ministerial point of view. Every conversation I have had with my officials since 9 January has been focused on the negotiation and the different scenarios that we may or may not face. There has been no institutional resistance to the outcome, which is that we are leaving the EU. This is clearly complex when it comes to financial services, but at the appropriate time I am absolutely certain we will be ready for those negotiations.

Q445 **Mr Jones:** As I understand it, the proposal is that we would have different rules that would lead to the same regulatory outcomes for different sectors. Could you explain how these outcomes would be defined? Would they be defined in the agreement? How would they be defined?

John Glen: Again, I would go back to the starting point we are at now: we are in complete alignment. We have not been in a situation where it has been them and us; we have been in a situation where we have been actively shaping the regulatory regime we are now subject to. We are talking about a situation that has been characterised as mutual recognition, where we recognise that it would be our prerogative. The decision to leave the EU is about saying, "We must have the discretion to work out how we adhere to the prudential regulatory standards that we think are a good thing".

The answer to the question is that the negotiation will determine exactly how we do that, but the principle behind a mutual recognition system is to rely on observations around outcomes, not a line-by-line scrutiny of how we achieve that.

Q446 **Mr Jones:** Yes, but how would you define those proposed outcomes?

John Glen: They would be about a conversation as to what would be necessary in a trading relationship, in a regulatory environment that is necessarily complex, given what happened 10 years ago, and to have something that was in the interests in the City of London and the institutions that trade out of there.

Q447 **Mr Jones:** Presumably, it must also be acceptable to the European Union.

John Glen: Our objective, and my objective as a UK Minister, is to do what is right for the City of London.

Q448 **Mr Jones:** I understand that, but if you are seeking to achieve agreement it has to be something that is agreeable.

John Glen: The third part of what the Chancellor set out in his speech on 7 March was the mechanism to deal with situations where we wish, as a national Parliament, to deviate from where we are at the moment. In those circumstances, we would need to be assured that there was a reliable and proportionate mechanism to evaluate what the consequences of such a deviation would mean.



HOUSE OF COMMONS

Q449 **Mr Jones:** You would have to have a mechanism that tracked any changes both here and in the European Union, and to establish that those changes were within the agreed outcomes that presumably would be defined in the agreement.

John Glen: The detail of exactly how we do this would be a matter for the negotiation, but it is clear to me that leaving the EU means that the UK Parliament would have the right to decide to adopt a different process for evaluating and, if it adopted a different outcome based on whatever we deem to be our national interest, we would need a mechanism to engage with the EU on the consequences of that. We acknowledge there would be consequences.

Q450 **Mr Jones:** Clearly, yes, to ensure that mutual recognition continues. How do you envisage any changes being supervised and monitored by both parties? What sort of mechanism do you envisage would be set up in order to achieve that?

John Glen: We have a number of precedents when we think about international standards. It is not as if the EU has not had trading relationships outside the EU previously. We would be able to cite those in terms of different free trade agreements and how they operate. But the detail of how this works would be a matter for negotiation. Really, at this point, it is not helpful for me to commit to one particular mechanism or another. I am sure these proceedings will be watched quite carefully by the Commission, and my job is to do the best for the UK Government.

Q451 **Mr Jones:** Presumably, some sort of inspection regime would have to be set up in order to ensure continued alignment.

John Glen: No, not necessarily. That is a matter for negotiation, Mr Jones.

Q452 **Mr Jones:** We are at a fairly early stage in the process, then.

John Glen: We have not started the actual negotiation, as I said.

Q453 **Mr Jones:** No, I understand that but, in terms of setting up the British negotiating position, how far advanced are you?

John Glen: We have a whole spectrum of materials ready for the negotiation process. We are clear that we need to have something that gives stability and assurance to the institutions that function out of the City of London, so they are assured that the regulatory regimes they operate under are reliable. The reason why we have set out the mutual recognition concept is that the existing third-party equivalence regime is totally inappropriate and unacceptable for our purposes. We are clear about, conceptually, where we could go, and we are very clear about what is unacceptable at the moment. We cannot have a situation where we can have arbitrary rules changed. Given the complexity and size of the City of London, it would be entirely unreasonable for us to operate under that third-party equivalence regime.



HOUSE OF COMMONS

Q454 **Mr Jones:** Yes. You are entirely confident that you are in a position to hit the ground running once those negotiations commence.

John Glen: I believe my colleagues in the Treasury have done everything possible to put us in the best possible position. When we reach that position in the negotiation, which is a process that has been defined for us, we will be ready.

Q455 **Chair:** I just wanted to ask you whether you had a chance, Katharine Braddick or between the two of you, to read the evidence that we received from the three people who came to us about 10 days or two weeks ago.

John Glen: Was this Barney Reynolds and Mark Hoban?

Q456 **Chair:** Yes, it was a very interesting session. It covered a lot of the material that you have a responsibility for dealing with. I just wondered whether you had an assessment of the outcome of that session in terms of the making of Government policy. Did it help you to review and have a look at some of these rather important questions? We acknowledge the importance of the City of London; they do too. They agreed on quite a lot; they also had variations on the theme. I just wondered if the Government were listening to what the evidence was. After the Minister, perhaps, Katharine, you might give us your sense of it.

John Glen: We have ongoing conversations and dialogue with lots of people all the time. I met Barney Reynolds in the Treasury in the third week of my taking office. I have spoken to Mark Hoban a number of times. I did read the evidence. I note they had a slightly different view on the necessity of the implementation period. I note the specific models they have advised.

I am confident—or, rather, I know from the weekly or fortnightly update conversations that I have with Katharine and her colleagues—that those conversations are not only happening with representative bodies in the City of London, but there is also an ongoing dialogue with their counterparts across the EU 27. This is happening all the time in order that we are fully apprised. The way this is sometimes portrayed in the media is as a question of the Commission versus the UK. It is wrong to say that the EU 27 have a single view of exactly what should happen. When we actually start speaking—

Q457 **Chair:** Those are the member states.

John Glen: Yes, I know the difference between the member states and the Commission. I am saying that, in the end, though they are inclined to support the Commission's view publicly at this point, there are concerns around how viable that position is and there is a range of views across national states.

Q458 **Chair:** The Italians are saying that they would welcome the idea of the UK being involved in financial services in co-operation as they go down



HOUSE OF COMMONS

the route of Brexit.

John Glen: Yes. The Italians also say that they find the existing equivalences insufficient. The Danes say the area of financial services is not a priority but that they are open to a bilateral agreement. We see different opinions across the continent.

Q459 **Chair:** You obviously have a note on this.

John Glen: I have a very nice map, actually. It is very good.

Q460 **Chair:** I am so glad to see it. It would be helpful if you could let us have that after the session.

John Glen: I do not know about that.

Q461 **Chair:** Why not?

John Glen: It is a collation of the different high-level views that have been expressed by different people at different times. I do not see any reason why I cannot give you that summary.

Q462 **Chair:** That would be fair.

Katharine Braddick: I would just pick up a couple of points. What the Minister has is not necessarily the views of Governments but views that have been expressed by people in those jurisdictions. It can illustrate the heterogeneity of views across the Union around these issues.

Specifically on how we have engaged with Barney Reynolds, Mark and Ronald Kent, all of them have been doing very extensive and thoughtful work in this field. At official as well as ministerial level, we have had close engagement. They do not necessarily agree on everything between themselves. That is quite helpful for us, at official level as well as ministerial level. The work they have been doing in private to share their thinking with us to inform our own, and then in public to stimulate the debate, has been helpful in surfacing the kinds of questions that we need to confront and the kinds of solutions that might be viable.

That is a long way of saying yes to your initial question about whether we are close to this thinking and whether we take account of it.

Chair: That is very helpful.

Q463 **Kate Green:** Thank you very much for coming. What thinking have the Government done about the dispute resolution body that might oversee the mutual recognition agreement? In particular, what powers might that body have? When the witnesses the Chair was referring to a few moments ago came before the Committee, they suggested that the dispute resolution body might not have the power to overrule a decision, either by the UK or by the EU, to restrict market access in the event, for example, of the divergence that we were talking about a few moments ago.



HOUSE OF COMMONS

John Glen: This is a matter for negotiation. It is clear that we need to have something that is transparent, proportionate and allows us to know the consequences of decisions we make that move us away from where we are at this existing point in time. The withdrawal Bill means we will have the same regulatory frameworks on day 1. We are also clear, as has been said by the Secretary of State for DExEU, the Chancellor and the Prime Minister, that we do not wish to wilfully race to the bottom in terms of our regulatory aspirations. There is very good evidence that we have been at the forefront of securing negotiated different positions in terms of the ring-fencing of banks and pension regulations. If you look at macroprudential policy in the UK, it is different to what we see in the EU 27.

The exact mechanism that we use will be a matter for the negotiation, but I hope we will recognise that we have to keep focused on outcomes and the way to calibrate a proportionate response for when there is deviation, in the context of the desirability of high levels of regulation for macroeconomic stability and responding to what happened 10 years ago.

Q464 **Kate Green:** Might the prospect of the risk of suspension of market access act as an incentive for more compatibility and less divergence, so the UK would continue to be more likely to follow an EU regulatory model in order to protect that market access?

John Glen: The UK must do what is best for the UK's interests, but that is often aligned to what is in the interests of a highly integrated market. We are in a global market and there are regulatory standards that we will wish to adhere to. There is not a single model from the Commission's side. There is a degree of pragmatism about how we approach this conversation.

Q465 **Kate Green:** But is there not a risk that the EU could, for political reasons, withdraw market access for the UK? What could be done to mitigate that risk?

John Glen: I acknowledge there is a risk that they could do that, but I would also point to the economic reality of the City of London and how a vast proportion, over half, of their equities are based in London. A lot of their corporate bonds are traded out of London. They would be making quite a bold and highly politicised decision to forsake their economic interests. They would also be opening up additional costs for businesses if they created something that was more cumbersome and expensive on a regulatory basis.

Q466 **Kate Green:** You would not overestimate the consequences of Mr Barnier's suggestion that we should not assume the EU is as dependent on the City of London as we might like to think.

John Glen: I note what Mr Barnier has said, and he is taking a very strong position, as we would expect. I respect the strength of his position on behalf of the interests that he is negotiating. But I am concerned about what is right for UK financial services, as is the Chancellor. We



HOUSE OF COMMONS

have set out a perfectly credible position based on the economic interests of the UK and the EU, and a set of pragmatic proposals that are in line with the free trade agreements the EU have entered into and the conversations it has had with other jurisdictions in the past.

Q467 **Kate Green:** I have one last question. What did the Chancellor mean when he said the UK should not be an “automatic rule-taker”?

John Glen: He means that we cannot accept as yet unknown future rule changes. We cannot do that, because we have decided to leave the EU. That means we are not going to be subject to rules that are determined without our presence at the table. It would not be appropriate, given the size of the UK’s financial services market and the complexities of the products that are traded, for us to do that. We need to come up with a resolution and an arrangement that does not make us rule-takers.

Q468 **Kate Green:** We might choose to follow the same rules if it were in the UK’s interests.

John Glen: Given that we are in complete alignment at the moment—and some of those conversations have been pretty tough to get to that point—it is possible, and in fact in some areas it may be probable, that we would wish to take a similar approach. But the key principle at stake here is that we have decided to leave the EU and we must, therefore, honour that decision and retain that decision-making capacity within our domestic Parliament.

Q469 **Chair:** On that, you have given quite an interesting answer, for this reason. When he said the UK should not be an automatic rule-taker—this is amplifying what Kate has already asked—it is possible to construe it as meaning that you might not be an automatic rule-taker but you would be some other kind of rule-taker. That would not be consistent with what you have just said.

Can we understand that you clearly want to get across in relation to this very important question that we would not be rule-takers? That was the inference I drew from the manner in which you answered the question. In other words, you do not intend that we will be rule-takers.

John Glen: I do not intend that we should be rule-takers.

Q470 **Chair:** That is all I need to know.

John Glen: I have said what I said, and I have said it because it is what I believe.

Q471 **Chair:** You have said it, but the Chancellor used the words “automatic rule-takers”, which left open the possibility that we might be some other kind of rule-taker.

John Glen: He also gave within his speech on 7 March a very, very clear description of the mechanism that we need to use, which is characterised as being one of mutual recognition, where we look at the outcomes. If you look at the outcomes, you happen to adopt the same mechanisms



HOUSE OF COMMONS

and you agree to those same outcomes, there will still be some alignment.

Sometimes we can get into this notion that, just because we are leaving the EU, every rule will necessarily have to automatically change on day 1. Most people in the City do not see that as a desirable outcome, given how we have worked very hard to get to a common framework in the first place.

Q472 **Chair:** I take it, Katharine Braddick, that you would be a participant in the preparation of the Chancellor's speeches, or something like that.

Katharine Braddick: Yes, that is right.

Q473 **Chair:** You would be, so you can see where I am coming from and where I hope I do not end up.

Katharine Braddick: Yes.

Q474 **Chair:** I obviously do not want to hear the idea that we are going to be a rule-taker of some description. What we have heard from the Minister is something that you as an expert in the field, an adviser, would agree with.

Katharine Braddick: Yes, of course.

Chair: In other words, we will not be rule-takers.

Katharine Braddick: If we are on speeches, the other speech I would draw attention to is the Prime Minister's speech, where she connected the question of rules and how you think about rules and trade in highly regulated markets, because when you are thinking about cross-border trade in highly regulated services and products such as financial services, inevitably the question of the convergence or not of the rules that are in play comes up. The Prime Minister said in her speech that we might need to maintain similar rules in areas where there is a deep trading relationship.

The Chancellor talked about automatic rule-taking, because there is anxiety that we would in some sense be signed up permanently and always to take on rules over which we have no influence. That is quite distinct from a relationship between markets that are trading highly regulated products where you must have some kind of deep dialogue about your regulatory requirements, in order to ensure that trade takes place in a safe way.

Q475 **Chair:** Of course, Kate's question is related to the dispute resolution mechanism. I played some part in the early parts of the discussions, in the Committee stage of the Bill and otherwise, in identifying a manner in which we would be able to avoid going to the European Court of Justice. There were various models put forward. Our legal adviser, I and others talked to the president of the EFTA court, Mr Baudenbacher. He has just retired, has he not? But basically there was a lot of discussion around



this, in terms of dispute resolution. In more general terms about dispute resolution, but including financial services, we did a report on this some weeks ago. I do not know whether you have had an opportunity to look at that. We opted for the Martin Howe approach on the grounds that it provided the maximum degree of dispute resolution mechanism without our being subject to the jurisdiction of the European court. What is your view on that?

Katharine Braddick: It is somewhat challenging for us to discuss dispute resolution for financial services in quite the way you would like, because it is inevitably connected with the construction of the overall dispute resolution mechanism.

Chair: That is what I am saying.

Katharine Braddick: Our part of the deal will operate within that dispute resolution mechanism, and that is a horizontal matter for DExEU. What I would say about the way we think about this in financial services terms is that any dispute resolution must come at the end of a process where there has been proper engagement on the substance of the regulation that is evidence-based, because of concerns about the politicisation of the process. The remedies for any dispute need to be proportionate to the nature of the divergence, again because of the risk of politicisation. We have principles about how we might think about the operation of the dispute resolution mechanism. In all honesty, it is not proper for us to talk about that in isolation from the rest of the deal.

Q476 **Chair:** If you look at MiFID II, there is the most incredible block or impenetrable morass of detail. Quite frankly, I defy even experts in big City firms and law firms—some of whom I used to advise—to understand it themselves. Even if they did, it would not help them very much. I am just wondering whether in fact it may make a lot of money for them, but it does not mean to say that it results in any kind of satisfactory outcome because it is just so complicated.

In that context, the European Court of Justice really has to be excluded on the basis that we repeal the 1972 Act. The monitor is showing that we are on various amendments this afternoon. By this evening, subject to whatever may go on in the House of Lords, we will have a Bill that has left the Commons that says unequivocally, as it did on Third Reading, that the repeal of the 1972 Act takes effect. There is no question about that; there has been no attempt to dislodge that from the Bill yet, excepting that some people would like to. Basically, nothing has happened.

On that footing, under section 3 of the 1972 Act, the European Court is the crucial plank, because once we are out of the European Communities Act 1972 we are out of sections 2 and 3. Although there is within the Bill a mechanism for something called EU supremacy and EU retained law, for practical purposes we are going to be on a new footing soon. When that happens—and I am not trying to put a date on that right now, because that is something to be looked at again—I am concerned to know



whether, in the context of financial services and given the state of the Bill now, you would assume you are looking at a timescale in which the European Court of Justice would not have exclusive jurisdiction over the rulebook of the Financial Conduct Authority that the financial services industry would be currently affected by. That is all within the framework of what you have just described, which is the European Court arrangements, but it is not going to be there for much longer. What is your answer to that?

Katharine Braddick: I understand two questions there, one of which I know more about than the other. In terms of rule-making, the rules that bind firms in the UK and are enforced by the FCA and the Bank of England—under our model those rules would be a matter for Parliament and UK regulators, and a matter for UK statute. The question of the operation of the dispute resolution mechanism for the agreement and the role of the ECJ is one that goes beyond, frankly, my remit. That will be part of the negotiation, and the way it operates for financial services will be consistent with the rest of the deal. I cannot comment on that part of it so much.

Chair: Lastly, before I move on to the next question, would you be good enough to take on board what I have said? At the same time, you could perhaps have a chat with the lawyers. The Treasury Solicitor would be appropriate. He seems to be the top lawyer around. Will you try to get this idea implanted? It is probably there; he may have noticed what I have been saying over the years. Having said that, it is important for you to engage with them on that point, because it is going to become a very practical question as we move on.

Q477 **Kate Green:** Whatever dispute resolution body is put into place—I appreciate what you say about it being in the broader context of what is decided across the piece—is there any certainty about whether that would be the final arbiter in the event that, for example, the EU imposed market-access restrictions on the UK and we wished to go to the dispute resolution body to challenge that? Would the decision of that body be final and definitive? If not, there would be a certain lack of certainty, would there not, for the financial services sector?

John Glen: The answer here is that we need a mechanism that gives us transparency and certainty, and satisfies the industry. We cannot have something that is open to further ambiguity. We are in uncharted territory. A country of our size with the complexity of our financial services industry leaving the EU has never happened before, and that is why we are calling for a completely new long-term economic partnership based on the reality of the size of our economy. But you are absolutely right: we cannot have a situation where there is uncertainty and ambiguity, because that will not have satisfied the needs of a dispute resolution system. It must resolve those disputes and give an outcome that is then binding and meaningful to the participants in the market.

Chair: We are now moving on to negotiations with the EU on the mutual



recognition proposals. I wanted to mention the fact that our witnesses last week were quite optimistic about the prospects of securing a mutual recognition agreement, but that this depends on persuading the member states to instruct the Commission, which is hostile to these plans.

Q478 Kelvin Hopkins: I have to say I was impressed with the representatives from the industry whom we met last week. They were competent, and obviously very skilled and knowledgeable. Do you share the industry's optimism that something akin to what you are proposing will be in the final trade agreement? Do you share the optimism about that?

John Glen: As was set out in the Chancellor's speech, there are grounds for an agreement based on the fact that we have a common starting point and shared economic interests, and there is a precedent for where the EU has dealt with other free trade agreements. Though there is clearly a gap between where we are now and where the Commission is now, we have a negotiation process ahead of us and we have to explore that. It is difficult to anticipate the journey that that negotiation process will take us down, and it would be right for me at this point to reiterate the Government's position rather than speculate.

Again, I do not want to let our interests down at this point. We are about to get into the detail of the negotiation. The industry representatives, as you rightly say, have set out some very credible proposals that demonstrate how we could come to a resolution on this. It is a matter for the negotiation process to determine how that comes about.

Q479 Kelvin Hopkins: Their optimism was based on a view that the member states are keen on having good relations with the City afterwards and its skills and resources. The Commission is politically a bit miffed about the fact we are leaving and so does not want to be quite so co-operative. The pressure could come from the member states to be sensible.

John Glen: Clearly, there is a dynamic between the member states and the position taken by the Commission in the negotiation. When we get to that point, we look forward to engaging with them.

Q480 Kelvin Hopkins: What would be your response to the Commission's dismissal of the proposals? Are you quite confident that they are acceptable to the necessary majority of the member states and to the European Parliament, most importantly, too?

John Glen: The Commission has not put a viable alternative text on the table, and the existing option of third-party equivalence is inadequate for what we need, given the complexity and size of our trading relationship and financial services industry. I would take you back to my map and the different views that exist across member states. We see many likeminded countries that are interested in resolving this and having a process that respects the EU's need to hold on to the coherence of the EU, but also respects the fact that we have made a decision to leave the EU. The spirit of this is one of collaboration in a dialogue to get a resolution. That has



HOUSE OF COMMONS

every prospect of success if we focus on the outcome that both sides can reasonably say they need to have.

Q481 **Kelvin Hopkins:** What about the timescale for negotiating? Is that sufficient?

John Glen: We have secured the implementation period. I note that Barney Reynolds and Mark Hoban had slightly different views on the necessity of that. I have heard some people say that we do not need an implementation period at all. Obviously, we are dealing with a whole range of industry interests, and an implementation period was determined to be necessary. We have that, and we also have hard negotiations ahead of us over the coming months. But I believe the work we have done in the Treasury on preparing to leave the EU and on preparing for these negotiations gives us every chance of success.

Q482 **Chair:** Mr Barnier has made comments on United States television about how the EU does not want or need these negotiations at all and this is all the fault of the United Kingdom; it is not to do with anything else and it is all the fault of the UK, or words to that effect. There is an intransigence and a rather contemptuous view that he has been expressing regarding the extent to which the negotiations will be successful. In light of what you have just said, would I be right in thinking that the Treasury is actually ready for a “walk away” situation?

You may not know this, but bear in mind that last night an amendment was passed in the House of Commons—I have to say that I have been talking to a lot of people whom I would have expected to know that this happened, but they did not seem to have picked up on it—that actually presupposes under the withdrawal agreement arrangements that we will walk away, irrespective of the fact that there are a number of Members of Parliament on both sides of the House who are going on about the fact that we must never have a “no deal” situation. I can tell you that the House of Commons has just passed an arrangement that presupposes that we might have to have a “no deal” situation.

John Glen: I would say three things to that. Mr Barnier is taking a tough position, representing the negotiation that he is conducting on behalf of the Commission. I respect him, but I disagree with him. The Treasury is aligned to other Departments across Government in preparing for these negotiations. I believe we have a formidable team ready to conduct those negotiations, led by the Prime Minister, the DExEU Secretary and obviously the Chancellor as well.

On the third point, we are ready for all outcomes. That means we are ready to implement whatever statutory instruments or regulatory arrangements we need to in the case that no deal is the outcome. We do not anticipate—as is widely said, and the Treasury would agree with it—that to be the outcome, but we are making every arrangement for that scenario.

Q483 **Mr Jones:** I am pleased to hear that you are making preparations for a



“no deal” outcome. Might it offer reassurance to the industry if you were to give an outline of what those preparations are?

John Glen: We are doing a lot of work to make sure we offer reassurance where that is helpful and necessary, without trying to lead to the impression that somehow this is where we think it is going. At official level, the work is happening to give that reassurance.

Q484 **Mr Jones:** Your officials are engaged with representatives of the industry.

John Glen: Yes, they are.

Q485 **Mr Jones:** Are they reassured by what they hear?

John Glen: That is perhaps for Katharine to answer.

Katharine Braddick: As the Minister has described, we have a very extensive and detailed programme of work to bring into UK statute all of the legal requirements from European law that will be required to keep the financial services markets moving the day after we leave in the event that there is no deal. The industry has a very close and material interest both in how that is going to operate and in helping us to ensure that we get it exactly right. We are working with industry, as well as extensively with our regulators, to make sure that as soon as we can share material with the industry we do so. We expect that process will intensify certainly from the middle of this year and through the rest of this year as we get into the process of, as we call it, onshoring that legislation.

Q486 **Richard Drax:** May I apologise to both you and the Minister, because I was late at the start of this? Minister, falling back to WTO is the hard-edge Brexit that so many people talk about, which I think is rubbish. We have voted to leave the EU. There is no such thing as a hard-edge Brexit. We would like to have a Brexit where a deal is done. Of course, everyone wants that. If it is not possible, we will leave without one and fall back on WTO rules.

What is your Department doing to explain to the British people and to industry what exactly WTO means? There are a lot of people who ask me, “What is WTO, Richard? What will it mean for the country, for business and for the City?” When will you start explaining that? It will do two things: first, it will help the British people understand where we might go and give reassurance to the City and business; and, secondly, it also will be a clear light to our EU negotiators, not least Mr Barnier, that we mean what we say.

John Glen: At the moment, we are taking the necessary decisions around regulation and SIs in order to plan for that eventuality. Given that we are engaged in a negotiation process to secure a deal, stressing the outcome that we are not negotiating for is not something that we are engaged in. Across Government, we are engaged in a process of negotiation to secure a deal.



HOUSE OF COMMONS

You are talking about the tactics of trying to engage the Commission in a way that focuses it on the desirability of a deal. Frankly, we have not got to that negotiation yet. We have enough to do to put in place the necessary steps for a situation where we do not have a deal. In terms of the messaging and tactics of that negotiation, it is not something that I am personally engaged in. Katharine, I do not know whether you want to comment on what accompanying conversations you have with the industry with respect to the eventuality we are preparing for.

Richard Drax: Before you answer, can I be very rude and butt in?

John Glen: Yes, of course.

Q487 **Richard Drax:** I understand your point, Minister, but the point I am trying to make is this. At what stage do we make it clear to British business, the City and the people in this country what effect a hard Brexit—as some people would call it; I would just call it leaving the EU without a deal—is going to have on them? This is a vital part of the future of our country, which has tremendous opportunities ahead of it. When is the Treasury going to warn people? I am not saying this as a threat to the EU negotiators. How long do you leave it before it is made clear what WTO actually means?

John Glen: I am sorry, Mr Drax. I would say that, this time, if we set out a full description of different scenarios of a WTO arrangement, it would have a material impact on the conduct of the negotiation.

Q488 **Richard Drax:** It might help, in my view.

John Glen: That is a judgment to be made, but the point is that we are negotiating for a deal. If you are negotiating and engaged in a process where you are seeking a deal—that is the position of the Government—that is what you should be engaged in doing. Whether or not that changes is a matter for the Prime Minister and the Cabinet, I would imagine. But do not try to assume that somehow there is a difference between the Treasury and other Departments, because there is not. We are all completely aligned in preparing for a negotiation to secure a deal.

I would like to defer to Katharine in terms of what the accompanying narrative would be during those conversations with the industry.

Katharine Braddick: My answer is probably rather narrow given the breadth of your question, because my remit is financial services. Prosaically, in terms of the financial services sector, there has of course been extensive discussion between all the public authorities, us, the Bank of England and the FCA since summer 2006 with firms about the planning they may need to put in place in the event that we were to leave without a deal, and they had to continue to provide services or make other decisions around their business models. We have done a number of things to try to ensure they get as much certainty as possible and that, where appropriate, they are internalising what they need to do to prepare for that outcome without making it a reality, where of course the



HOUSE OF COMMONS

Government's intention is that we get a deal and they can continue to do business with much less friction than that would envisage.

Q489 Andrew Lewer: You will recall, in the lead-up to the so-called renegotiation of the UK's terms of membership of the EU, the former Prime Minister David Cameron and others set a lot of store by friendly member states that did not necessarily take the Commission's views on things and would therefore enable the path to be smoother than it appeared, and we know what the result of that was. We also know references were not necessarily made to people from the UK within the European institutions, including the European Parliament, as to how realistic was the assessment that member states would prevail over an intransigent Commission.

In the view of that previous experience, given what we have heard from Mr Barnier and the Commission so far and in light of the assessments you have obviously made about member states having views, how robust is the Treasury's assessment of the prevailing nature of the will of the European Commission when it comes to actually coming up with some deal or not in financial services?

John Glen: Unfortunately, you are taking me down a similar line of questioning.

Chair: That is what we are here for.

John Glen: Well, I know, but I will try to answer it in a slightly different way. I will try to get the point you were driving at.

Of course I recognise what you are saying. I have cited a couple of different views from different countries, and I could go through the whole of my list, but I will not. The bottom line is that we are about to enter a negotiation process. We know where views differ. Katharine and her colleagues are visiting different countries and their counterparts frequently. There are conversations going on that are about saying, "There are some economic interests here; this is not just a political decision". We do stress the economic relationship, the value in that relationship, and the value in maintaining the situation we have and the stability we have at the moment.

Each week I get a read-out in the Treasury of what the big firms are doing in terms of their contingent arrangements for Brexit. I have seen a very consistent pattern over the five and a half months I have been in this position. To me, that tells me that there is an expectation that there will be a deal to be done. I acknowledge what the Commission says; I acknowledge what Mr Barnier says. But I also acknowledge the reality of the economic interests that are at play here. I cannot give you a definitive read-out on what level of confidence we have, but I can tell you that, yes, I respect Mr Barnier's position, but we have a very robust case too on the interests of the UK in having a mutual recognition agreement that is in the interest of the other member states across the EU as well.



HOUSE OF COMMONS

Q490 **Chair:** You are really quite confident on the basis of what you are hearing from inside the City.

John Glen: I did not say that. I said I am confident in the case we have to make and the value, in terms of the economic outcomes to the member states, of securing a deal.

Q491 **Chair:** This morning, we hear Mr Drechsler on behalf of the CBI, which is not really so much to do with the area you are dealing with, putting out some massive great cloud of doom and gloom and things like that. Some might be quite relieved to know that he is not going to be in place much longer. But the truth is that it is really important that we take a look at the historical role of the City, which I did mention in my exchanges with the other witnesses last week or the week before.

Since the late 17th century, the City of London has been unbelievably successful over a period of time. Why? Because we have ingenuity; we are entrepreneurs; we get it. With all great respect to them, some of the other countries just do not match up to that degree of success over a long period of time. There are far too many people around—you might agree with this—who want to play down rather than to make clear the extent to which the United Kingdom is an incredibly successful country, not only in terms of financial services but in terms of opportunities and what Richard Drax was referring to, which is our capacity to engage in global opportunities.

Some of us are just getting completely fed up with people who ignore the history, and do not understand how successful we have really been and that we still are. We want to work with other countries; of course we do. But we do not want to be subjected, I hope you would agree, to a constant stream of doom and gloom that defies the historical record.

John Glen: I am trying to project optimism and confidence in the position we are in as a country.

Chair: Three cheers.

John Glen: Fragmentation of trading would affect market liquidity; it would push up trading costs for securities; it would make it harder for EU 27 businesses to raise finance on the capital markets. That is why we have a strong case for a deal in financial services that is in our interests as we leave the EU and in the interests of the EU 27.

Chair: Very good.

Q492 **Steve Double:** Picking up on that point, Sir Ivan Rogers has expressed the view that an economic assessment of the potential disruption to financial sectors across Europe is not what is driving the EU's position. Do you share that view? If so, what is driving that position?

John Glen: You are absolutely right, Mr Double: there is a range of factors that are influencing the position the Commission is taking. They are apprehensive about losing coherence to their model. They are anxious not to make concessions through this process that encourage



HOUSE OF COMMONS

other member states to take a similar decision. But there are a range of views across the EU. We are at the pre-negotiation stage. We have to get to the point where we actually sit down and look at the hard economic realities that the Chair just set out. I am aware of what Sir Ivan Rogers has said, and it is clearly a question of how the negotiation and the balance of forces that are at play determine the process of that negotiation.

Q493 Steve Double: Bearing in mind your comments a while ago, you may or may not want to elaborate on this but, if we were in a situation where no agreement on mutual recognition can be reached, what is the Government's fall-back option?

John Glen: We are about to set out on a negotiation. I would not go into any negotiation in my previous life, in my business life, determining that I have another option. It is not a binary choice between this and one other thing. There is a range of options that may come out of it. But my position, and the position of the Government, is that we have set out, as the Chancellor set out on 7 March, a very clear description of the sorts of arrangements we would need and the sorts of arrangements the City of London would wish to see. We go into that negotiation confident in that narrative and that it has value for the economic interests of the EU 27 as well as the City of London and the UK.

Q494 Chair: How do you respond to the concerns that are being expressed that relying on equivalence could leave the United Kingdom as a rule-taker?

John Glen: The current equivalence regime for third parties, which we had a considerable hand in forming, is not suitable for the complexity of the UK financial services industry. It would be impossible for us to engage with a process that lacks transparency, that is open to politicisation and that would not give the certainty that we need. That equivalence regime is not going to be suitable for us and we could not agree to that.

Q495 Mr Fysh: Minister, is the implementation period, or transition period, as it is otherwise known, a good idea for the financial services industry?

John Glen: It has happened; it is happening. I recognise—you took evidence on this last Wednesday afternoon—that there is a range of views over its necessity. Clearly, when we have multiple industries, we cannot have different implementation periods for different industries. We have agreed that. It gives us a window to complete the negotiations and define what the end state will be. It presents challenges as well, and perhaps you will come on and ask me about that.

Q496 Mr Fysh: Yes, indeed. I just wanted to ask about how you saw the development of regulation in the financial industry during the period, what your priorities are for the things to look out for and how we are dealing with the potential problems of regulation being imposed upon the financial industry, which is after all one of our most important industries.



HOUSE OF COMMONS

John Glen: You are absolutely right, and I believe you have experience in this industry yourself, Mr Fysh. The challenge is that, with some of the live files that are currently open at the moment, there is the risk that they become politicised. We have to be clear that we are ready for a negotiation on the future EU-UK partnership, as part of the Article 50 negotiations. Where there is, in some of the regulatory dialogues within those discussions, innovation that is not in our interests, there is a mechanism for us to make representations during this period. We will have the right to attend those discussions on items where we have a direct influence.

The world is not going to stop because the UK is leaving the EU, and the Commission will continue doing its work. But we will have great interest in what is happening until such time as we leave the EU.

Q497 **Mr Fysh:** I just wondered whether you could say a bit more about the right of representation there. Is it not the case that the transitional arrangement that has been agreed basically excludes the Treasury, the Bank of England and the Financial Conduct Authority from representation on the decision-making bodies? How does it actually work in terms of representation?

John Glen: Until we leave the EU at the end of March next year, we are able to participate fully in those discussions. That gives us nine and a half months of considerable influence. But we have to be realistic: we cannot have it both ways. If we are on a pathway out, or we have left and we have an implementation period until the end of 2020, we are not full members of the EU. We cannot have it both ways.

We can, though, recognise that, where we have strong interests in what is being developed in terms of regulatory risks and economic interests, we will make those representations on a case-by-case basis.

Q498 **Mr Fysh:** Is it true that we would only attend at the EU's invitation? We would not have the right of imposing ourselves on that process.

John Glen: If we are not members of the EU, we will not participate in the same way we do now. We are speculating about discussions from next April onwards. That is a matter that has not yet occurred. But I am interested in maximising our influence for as long as we are members and securing a deal that allow us the right ongoing final-state situation where we have a reliable mechanism to evaluate divergence if that is something that happens.

Q499 **Mr Fysh:** How could a financial transactions tax, for example, technically be implemented? Could it be done by regulation?

John Glen: Katharine, you are eager to come in and help.

Katharine Braddick: An FTT is a fiscal measure, which is outside my usual area of expertise in financial services regulation, but I will do my best.



HOUSE OF COMMONS

For an FTT to be introduced, it would have to be introduced as primary legislation. It is quite difficult to do that in the amount of time that is allowed for the implementation period. Where the ESAs are concerned, they are potentially quite remote from the operation of an FTT, because typically they are not involved in fiscal measures; they cannot introduce legislation on their own initiative. It has to be provided for in primary legislation. Our focus currently is on all the primary legislation that will then be enacted under the next Commission after we leave.

Q500 Mr Fysh: How long would it take for a piece of primary legislation to be initiated and then completed?

Katharine Braddick: It can vary very widely, so it is probably not wise for me to give you a range that is too broad.

Q501 Mr Fysh: What would be the minimum time?

Katharine Braddick: We could give you some precedents for financial services legislation. It more usually takes years than months; it vastly more usually takes years than months.

Q502 Mr Fysh: But it is possible that it could take less than one year; it could take months, potentially.

Katharine Braddick: It is conceivable, but as I think about it I cannot think of a single example in the financial services environment. We can write to you to give you a sense of the precedents that exist in our sphere, which might give you an indication.

John Glen: You are essentially asking whether, between 1 April next year and the end of 2020, there is a scenario where the EU could come up with new legislation that would have a detrimental effect on the UK and we would have no right of recourse to deal with it. We are saying that, potentially, you could construct a hypothetical scenario where that may be applicable, but we cannot give any examples of it. Frankly, if there were any risk of that happening, we would be making very strong representations through the negotiation process that we are undertaking.

This is a relevant consideration, and I go back to what I said about rule-taking. I respect the fact that we made a decision to leave the EU, and the country expects us to honour that.

Q503 Mr Fysh: Is it possible, though, that this could get caught up in a scenario where we were still negotiating with the EU, where the final end-state had not been decided? Is it possible that that could extend as a result?

John Glen: We are working to negotiate; we are primed and ready for negotiation over the coming months. Given the concern that has been expressed about this, it would be a matter we would wish to take into those negotiations.

Q504 Mr Fysh: Is it also possible that the transition period could be extended



HOUSE OF COMMONS

one way or another, whether by way of backstop or by way of formal extension of the transition period? As a Minister worried about the potential for damage to your industry, are you looking to make sure that is restricted?

John Glen: It is highly desirable that we come to a resolution of these matters as quickly as possible. We have set out the timetable for the implementation period. Within the context of financial services, that is adequate. That is what the industry expects: to get to a final state by the end of that period.

Q505 **Mr Fysh:** How damaging would it be to the industry to have a financial transactions tax imposed on it, for example?

John Glen: I do not see that as a realistic scenario, to be honest, for the reasons Katharine set out. We are in remote hypothetical scenarios here. I am not trying to be disrespectful, but it is just not a viable concept for us to engage on.

Q506 **Mr Fysh:** Would it be fair to say that that has not been assessed by the Treasury?

Katharine Braddick: Do you mean the costs and benefits of a financial transactions tax?

Mr Fysh: Yes.

Katharine Braddick: It is an idea that has been around for some considerable time and periodically surfaces, so, yes, we have analysed the effects of that, not only the competitive effects for the industry, but ultimately for investors. The people who bear the costs of an FTT are ultimately people with pensions and savings, which was always the core of the case we made against an FTT in the EU.

Q507 **Mr Fysh:** How much of the financial services industry is exposed to EU business relative to rest-of-world business? What is the value of the EU business as a percentage?

Katharine Braddick: I even brought some data with me, because I thought you might ask that question. We have some data from Oliver Wyman that suggests that, in order of scale, the importance to the UK sector is, first of all, domestic business. These are figures from 2015. About £90 billion to £95 billion of revenue from the UK sector was domestic business from UK clients. About £55 billion to £65 billion was international and wholesale business not connected to the EU. About £40 billion to £50 billion was international and wholesale business related to the EU. You can see it is a significant component, but obviously domestic and rest-of-world business is also very important to the sector.

Mr Fysh: It is.

John Glen: It is 20% to 25%.

Katharine Braddick: Yes.



HOUSE OF COMMONS

Q508 **Mr Fysh:** But the rest-of-world business is of sufficient scale that it would be a shame, would it not, if it were regulated by the EU without our input? That is what you were saying earlier.

Within the Treasury modelling that was submitted as part of the cross-Whitehall briefings, was any account taken of the potential damage to the financial services industry from being regulated by the EU without our input?

Katharine Braddick: Financial services was included as one of the sectors in that CGE modelling. Financial services was part of all the scenarios that were tested as part of that model.

Q509 **Mr Fysh:** Why has the Treasury not made public the methodology for the way in which that model has been constructed so that people, including Members of the Cabinet, can analyse it properly?

Katharine Braddick: I did not run the modelling myself, though obviously I am familiar with it. The modelling that was discussed very heavily a few months ago was made available to Members of Parliament. Both the outcome of the modelling and the way that the analysis was conducted by Government economists were made available.

Q510 **Mr Fysh:** But the methodology behind the model itself was not disclosed, was it?

Katharine Braddick: My understanding is that the CGE model has been constructed in a more advanced way for this purpose for use by Government economists to model these outcomes. I am afraid I cannot comment on it beyond that simply because it is not my area of responsibility in the Treasury, so it would be inappropriate of me to do so. We can by all means write to the Committee and explain the process by which those things were or were not made public.

Q511 **Mr Fysh:** It would be useful for the nation for the actual methodology behind the CGE model to be fully published, so that academics and market participants can see how the model works, because it is very substantially different to the previous one that was used. Many market participants have said they cannot actually drill into it; it is a complete black box. My final question would be this: did the Treasury leak the cross-Whitehall briefings that were prepared for the Cabinet?

Katharine Braddick: No, the Treasury did not leak those.

John Glen: I did not see them.

Katharine Braddick: If I might just make one further point—

Q512 **Mr Fysh:** How do you know that it was not the Treasury?

Katharine Braddick: Either you ask me the question and you think I can answer it, or you do not think I can answer, in which case there is not much point in asking the question. But to my knowledge the Treasury did not leak those briefings. You did say that Cabinet Ministers were not



HOUSE OF COMMONS

briefed on the methodology, and actually Government economists briefed every member of the Cabinet on that.

Q513 **Mr Fysh:** They were not briefed on the technicality of how the model was constructed.

Katharine Braddick: I was not in the briefing, so I do not know. But Cabinet Ministers were briefed by their own economists and Treasury economists on those data and on the approach taken.

Q514 **Mr Fysh:** Can I repeat the question? How do you know that the Treasury did not leak the briefing?

John Glen: Mr Fysh, you cannot expect to put a civil servant on the spot for something that is not her responsibility. At the end of the day, she has given you a fair answer and it is appropriate for us to leave it there.

Q515 **Chair:** On that subject, "Project Fear" had papers that were prepared under the auspices of Neil Macpherson—now Lord Macpherson—and which, to put it bluntly, were a disgrace. That is something the Government have to accept now, because we are now in different territory. The relevance of the question, to which you quite obviously want to give a robust answer in the terms in which you just put it, does not avoid the fact that there is quite a lot of concern, which I suppose in a funny kind of way is connected with this reference to the Treasury being at the heart of remain.

We have had an answer to that, and we have listened with care and interest to what you have said in that respect. But I have to say to you that we do know, despite some of the references we have had today, that there have been differences between the Bank of England and the Treasury over some issues, according to some newspaper reports. It would be surprising in the circumstances of Brexit if there were no differences of opinion. But the reality is that we have to deliver the verdict of the British people. I am sure you concur with that.

John Glen: I do concur with that completely. What we are dealing with here—

Q516 **Chair:** What was the percentage in Salisbury? Can I ask that?

John Glen: It was about 52/48; it was exactly the same as the national outcome.

Chair: They are sensible people.

Richard Drax: They are well led.

John Glen: Since I have been in the Treasury, I have not seen any evidence at all of any instinct to stop the process of finding a deal for financial services and stop Brexit. Now you might well conclude that I am too lowly in the food chain to know these things, but all I can say is this: I cannot account for Government behaviour before I entered the Treasury, but I have been very impressed with the quality of the work



that has been done to prepare us for that negotiation, looking at all the different scenarios, and I think we are in good shape.

- Q517 **Andrew Lewer:** This is about the Irish backstop. The Government's customs backstop proposal would keep the UK in the customs union for an indefinite period, which may or may not end in December 2021. The Prime Minister has said the EU would not be able to veto the end of the backstop once a new long-term UK and EU customs arrangement was ready. Given that any such customs co-operation agreement obviously is an agreement between both sides, does the EU not therefore have a veto over the date of the end of the backstop?

John Glen: I do not want to be evasive on this question, but I have to say this is not an area I am responsible for in the Treasury. The Financial Secretary to the Treasury would be best equipped to give you a detailed answer on that. I have spoken to him and told him that I might advise you of this. Clearly, the backstop is not the Government's preferred outcome and it is a contingency arrangement. The expectation of the Government is that we will resolve the customs issues through the negotiation process. In terms of different scenarios that you may wish to put to me with respect to how it might work and who has vetoes where, that question is really better addressed to my colleague Mel Stride.

- Q518 **Andrew Lewer:** In that case, given the significance of this, we will store all that up.

John Glen: He says he has not been to a Select Committee yet, so I am sure he would be happy to.

- Q519 **Chair:** I would like to ask a question on that. We are asking questions about a whole range of incredibly important matters in the national interest regarding the issue of financial services. Are other Select Committees—for example the Treasury Select Committee—asking the same kinds of questions?

Katharine, perhaps you know more about this, not that I am suggesting that Mr Glen would not. Between the two of you, you may know that we in our Committee have a power under Standing Orders to ask for opinions from other Select Committees. We are the pre-eminent committee, even over and above the Exiting the European Union Committee, because we can ask its members for opinions as well. Could you give me a steer on that? I just want to be sure the job is being done properly throughout all the systems that are available.

Katharine Braddick: I have attended the Treasury Select Committee with the Chancellor for a hearing on financial services and Brexit.

Chair: Excellent.

- Q520 **Mr Fysh:** Can I just follow up with a question in this area of VAT et cetera, to follow on from something you said before about preparing for all eventualities and thinking you could make the necessary regulations to cope with those things? When it comes to VAT, for example, what method



HOUSE OF COMMONS

would you use to bring forward regulation in order to deal with the fact that we were no longer in the EU, if there is no deal by the end of March 2019?

John Glen: Again, this is a matter for the Financial Secretary to the Treasury. It is also a matter for the negotiation process. It will be for the Government going forward to decide what VAT rules we have. We have been clear that we would not apply low-value consignment relief to goods entering the UK from the remaining EU. But please accept my apologies. It would be appropriate for my colleague to answer that in some more detail. It is heavily subject to the negotiation process we are about to enter into.

Q521 **Mr Fysh:** Indeed, yes, but the question I am asking is this: if the negotiation process does not happen or work for whatever reason, how technically would you regulate for border VAT?

John Glen: I would ask the Minister responsible for VAT. If you have looked at my responsibilities, they are considerable. I have enough to deal with there, so I just would not give you the best answer. I am sorry.

Q522 **Kate Green:** May I ask you a completely different question about workforce issues in the financial services sector? What assessment has the Treasury made of the kind of immigration system that will be needed to meet the skills needs in financial services post-Brexit? How advanced are discussions with the Home Office about that?

John Glen: I addressed this subject in a speech I gave this morning to Citi UK, which was basically arguing that we need to do two things. First, we need to make sure we have a mature home-grown profile of the right skills for financial services in the City. We talk about the national retraining scheme, but also about the investment we have made in T-levels and apprenticeships. I have been doing what I can to promote the use of apprenticeships more in the City environment, but we also need to recognise that the City of London is an ecosystem that relies on skills from outside the UK, and outside the EU as well. In terms of the mechanics of the representations we are making to the Migration Advisory Committee, I believe work is going on and a report is due in September.

Katharine, I do not know whether you are able to address the issue of what engagement we have had in terms of that process with the Home Office.

Katharine Braddick: The only thing I could add is that the Home Office has been doing extensive policy thinking and indeed negotiating, as part of the withdrawal agreement negotiations and then going forward to our deal with the EU, about future migration. We work closely with Home Office officials to make sure the needs of this sector are factored into that thinking. As you know from the evidence you will have heard, that is because, from an industry perspective, one of the things that is most important to them in terms of keeping the UK really competitive is our



HOUSE OF COMMONS

ability to attract the right talent. It is clear to us that that is a necessity, and as you would expect we take that into the intra-Whitehall discussions about how to conduct the negotiations.

Q523 Kate Green: Are you confident that the mindset in the Home Office understands that and is not becoming too bogged down in a wish to drive down immigration across the piece?

John Glen: I am very confident about that. I have had conversations with the new Home Secretary. I used to be his PPS, and as a former incumbent of this role he is very clear about the needs of the City with respect to the skills and the sourcing of those skills in a global marketplace.

Q524 Mr Fysh: We heard before about some of the burden of MiFID II, for example. It has also been suggested to me by people in the market that there is a huge burden in terms of compliance with Solvency II. I was just wondering whether you had done any thinking or modelling about the potential for making our financial industry more efficient and for the City of London to make more money and generate more tax revenue from reform of those systems when we are no longer part of the EU.

John Glen: I am always positive about the future of financial services, and I always stress the £72.1 billion of tax revenues that we secured in the last year for which we have figures, 2016-17. Equally, I am always aware that we are about to enter into a negotiation process. Setting out any thinking on future divergence or opportunities is probably not the best thing to be doing at this time. I am aware that there are a range of views, and your former colleagues in the City will be very clear about what those opportunities are.

But my job at this point is to get us to a position where we can negotiate the best possible deal, which I hope will be based on an arrangement that looks at, as I said, mutual recognition and an arbitration system for where we may or may not wish to make those decisions, one that will give a proportionate outcome as a consequence of taking decisions that would be in our economic interest.

Q525 Chair: On that, one could say that one of the advantages of our leaving the European Union will be—I said this in a lecture I gave at All Souls College, Oxford about a year ago—to be able to modify the legislation that is currently part of the statute book in order to remove the burdens on business, not just in relation to financial services but more generally.

What I referred to earlier on MiFID II seemed to me to be quite a good example of that sort of problem. If it becomes so complex and so opaque that nobody really understands it, you get into a situation where the whole system becomes clogged up. I hear what you say, but given our parliamentary and constitutional arrangements, after we have left, whatever anybody says, the reality is that we have always been highly competitive and we are global. That is our intention, insofar as the degree of complexity and the morass of legislation imposed upon us by



HOUSE OF COMMONS

the EU, much of which might be quite deliberate, can be winnowed out and reduced.

Instead of being a City that is clogged up and effectively dragged down by the millstone of regulation, we may have a new opportunity, with responsibility and with a clear understanding about the necessity for a proper degree of proportionate regulation, to look to a new future. I rather sense you were not very keen to answer that question because of the nature of the negotiation.

John Glen: Yes. If it was in a couple of years' time and I was in this position, that would be a very legitimate question to ask, but we are in a negotiation and it would be seen as highly provocative to be speculating about such areas, particularly when we have gone through a long process of negotiating and agreeing those things. Of course, many regulations are not of the burdensome nature that you describe; they are there for reasons of assurance for the market.

Chair: I am having a bit of a problem here. Never mind.

John Glen: Given what happened in 2008, there was a necessity to make sure we had prudential regulation that was authoritative, binding and meaningful. But nobody has greater knowledge in this Parliament than you about these matters, and there are obviously conversations to be had about what we might wish to do in future.

Chair: It is a question of proportionality and responsibility, as well as providing a sufficiently competitive environment, because everybody talks about the EU as if it is the be all and end all. Actually, the people in Europe are voting with their feet against it all over the place. It is not only that. Actually, according to the IMF and even the European Commission, 90% of all future growth—

John Glen: It is outside the EU.

Chair: Yes, absolutely. For a variety of reasons, much of which is to do with our democracy, we did a report about 18 months ago about the legal processes within the Council of Ministers. You may have experienced this yourself already. When you go over to Brussels, it is behind closed doors and it is mainly about consensus. It is not actually about the voting in itself, because everybody knows what the outcome of the vote will be.

That is unlike the House of Commons. I want to get this on the record, because it is very relevant to the financial services industry. Anyone who happens to be watching this and who wants to know what is going on might reflect on the fact that in the Westminster-based system—before we entered the European Union and at present—we have transcripts and votes. We record them. People know what is going on.

I cannot understand why anybody would want to have a system of legislation, which is imposed upon us under section 2 of the European Communities Act, that results in our having to accept legislation made by the majority vote of other countries in that manner, without any



HOUSE OF COMMONS

transcript and no description of the discussions that have taken place. You effectively get legislated for by fiat through the working groups, the civil servants and so on. I would just put that on the record before I ask Mr Drax if he would be good enough to ask the last question.

Q526 Richard Drax: Minister, can I take you back to the question you were asked a while ago now on customs co-operation and whether the EU would have a veto on the end date of the backstop? Your answer to that was that it was above your pay grade, if I can paraphrase.

John Glen: No, it is not above my pay grade. It is just that the Financial Secretary to the Treasury is responsible for this area and the subsequent question around VAT, and therefore I thought it was more appropriate to ask the Minister responsible for it.

Q527 Richard Drax: I am not getting at you personally, Minister. Because this is such a massive move we are making, given how key the Treasury is to the future of the prosperity of our country, you as a junior Minister have, in my view, as much responsibility as any other Minister to make sure it goes right. I am a little concerned, as many of my colleagues are, that for example, if the backstop is ever implemented, we could stay in the EU, as I understand it, for an indefinite period and certainly another year.

I would have thought the Treasury would be aware of this and would be preparing in some way for it. I am just wondering whether you are doing that and how seriously you are taking that proposition.

John Glen: As I indicated earlier, we are preparing for scenarios of no deal for financial services, but I am not responsible for this area and therefore I cannot help you. I do not know whether there is anything you wish to add, Katharine.

Katharine Braddick: I only do financial services, so I am afraid not, because of course there are officials supporting Ministers in the Treasury working on the consequences of all the scenarios being discussed about customs. As the Committee clearly has appetite to discuss those issues, I would suggest that would be the route to go.

Q528 Richard Drax: May I finally end on the point I made originally? In my very humble opinion, what the British people need is clarity. They are desperately calling for it. What if this happens? As an ex-soldier, "what if" scenarios are how we used to do the appreciations. This is one "what if" question I would ask as a member of the City or business: what if we leave without a deal?

The Treasury talks an awful lot about negotiating a deal, which we all want. I get that. We all do. We all want a deal. But bearing in mind that we are dealing with intransigence and Commissioners who want to punish us for fear that everyone else is going to leave the EU, in my view a deal is unlikely. I suspect a deal will be struck when we have left the EU, all the heat is gone, and we can sit down and talk like normal people. That is my own personal view. Again, can I leave you with the thought that perhaps some clarity on WTO rules and what will happen when we leave



HOUSE OF COMMONS

would be advisable?

John Glen: I note your observations on that, but one of your former professions was also as a journalist. The process by which we present our arguments in the context of a negotiation is very, very important. It is important that we have coherence across Government as we approach that. The decision has been made by the Cabinet to move forwards towards this negotiation. I have tried to set out this afternoon where we would seek to take that with respect to financial services. It is important that I support the Government's effort in a joined-up way in that endeavour. I acknowledge that you see it slightly differently, but the Government's position is that we are working towards a negotiation. If that proves not to be successful, no doubt we will have to adopt a different approach.

Katharine Braddick: I would also reiterate that, from the perspective of being the regulators and policymakers for one of the world's largest financial centres, it is of acute importance that we ensure that firms are adequately prepared. We have in announcements made in December last year been completely clear with our industry about the legal framework in the instance that we were to leave with no deal. The regulators are engaging with them very closely and clearly about their expectations, and the ways in which and pace at which they expect them to adapt to that scenario. There are political reasons that you have referenced, but there is also a fundamental requirement for financial stability to ensure the system is resilient to that scenario.

Q529 **Mr Jones:** I am very reassured by what you have just said, but it is important for wider reassurance that the message you have just given us should be communicated. The public need to know that those preparations are in place. I am sure I speak on behalf of a lot of my colleagues here when I say that I am constantly asked by constituents and other people whether that preparation is in place. While I fully understand that you are aiming at a deal and that is what everyone wants, the reassurance people will get from knowing those preparations you have just outlined are in place is great, and I honestly think that should be communicated much more widely.

John Glen: I acknowledge that point. I can only reiterate what Katharine has said with respect to the preparation. We are talking about line-by-line examination of the necessary statutory instruments and dialogue at official level on what is necessary. But we in the Treasury want to be completely aligned with all other Government Departments as we approach this negotiation, and that is what I am doing.

Q530 **Mr Jones:** Forgive me, but the criticism is not just of the Treasury; the criticism is of the whole of Government.

John Glen: I cannot account for that.

Mr Jones: No, I fully understand that. It is very, very reassuring to me to hear you, as a Treasury Minister, say that.



HOUSE OF COMMONS

John Glen: Thank you.

Chair: Just to conclude, I would say that part of the projection of what Mr Jones has just said and the importance of it is that the BBC, which has a capacity to disseminate information, should do so. We found we had to issue a formal complaint both to the BBC and to Ofcom, which they just simply did not accept, when we put out a really important report after the Chancellor of the Exchequer, the Secretary of State for Exiting the European Union and our Ambassador to the EU appeared in front of us and we asked them all the questions.

I think we can confidently say, having been established since 1972, first, that we know what we are doing and, secondly, that we know how to go about it. It is incredibly important for the public to know, and that was not even referred to on the BBC website. It gives you some indication. This is in the way of a further reprimand for the BBC for the way in which it failed to enable this information to get out to the general public. In the light of what Mr Jones and Mr Drax have said, I hope they will listen and take appropriate action.

I am very glad that you have come. We hope it has helped to enlarge some of the interest in this for the people who are watching, because it is being streamed as we speak. We are interested in a great opportunity for the United Kingdom as a result of Brexit, in the light of the historic vote the British people took. For our part, we will certainly make sure that message gets across, as far as we are able to do so, and what we say and do is not suppressed. Thank you very much indeed.

John Glen: Thank you very much.