

Treasury Committee

Oral evidence: The UK's economic relationship with the European Union, HC 473

Tuesday 11 September 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Catherine McKinnell.

Questions 795 - 865

Witnesses

I: Kevin Wall, CEO, Barclays Ireland; Mark Garvin, Vice Chairman, JPMorgan Corporate and Investment Bank; James Bardrick, Head of Citi UK and CEO of Citigroup Global Markets Ltd.

Examination of Witnesses

Witnesses: Kevin Wall, Mark Garvin and James Bardrick.

Q795 Chair: Good morning. Thank you very much indeed to our witnesses for being here for the next part of the Treasury Select Committee's inquiry on the UK's economic relationship with the European Union. We are particularly looking at cross-border banking services this morning. We are hoping to cover, obviously, preparations for Brexit, but it would be nice to get on to a bit of future-gazing as well about financial services regulation post Brexit and the views that you have on that.

For the purposes of those watching both here and also online, I am going to ask you to introduce yourselves. Mr Bardrick, can we start with you?

James Bardrick: My name is James Bardrick. I am the UK head of Citi and I am the chief executive of Citigroup Global Markets, our London-based international broker dealer.

Mark Garvin: My name is Mark Garvin. I am vice chairman of the Corporate and Investment Bank of JPMorgan and I am also chairman of JPMorgan Bank Luxembourg and JPMorgan AG, our Frankfurt bank.

Kevin Wall: Kevin Wall, CEO of Barclays Bank Ireland.

Q796 Chair: As I say, thank you very much for being here and for giving up time this morning. I did want to start with planning for Brexit. I think it is 199 days to go until 29 March 2019. The UK Treasury is saying that banks should continue to plan on the assumption that there will be an implementation period from 29 March next year, but the ECB, the European Central Bank, has apparently told banks to "prepare for all possible contingencies, including a no-deal scenario leading to a hard Brexit with no transition".

It would be very helpful, perhaps as a general opening question, to hear about which scenario you are planning for and the preparations that your bank is taking. Mr Bardrick, perhaps we will start with you.

James Bardrick: Certainly, Chair. Thank you very much for the opportunity to allow us to come and share our views on these very timely and important matters. As far as the basis of our preparation is concerned, we as an organisation took a very early decision that we had a responsibility to plan for all scenarios that we thought could be plausible. As a result of that, we chose to plan on the basis of the worst-case outcome whilst arguing very hard and lobbying very hard for there to be an implementation period, a transition period, as well.

We very much welcomed the announcement that there would be an implementation period and that that was agreed, but of course it is conditional on certain things being agreed—most importantly the



withdrawal Bill—so we cannot take it as being a certainty for us or for our clients.

We continue to plan and implement so that, even in the event of no transition being possible at the end of March, we would be able to continue to serve our clients. You are correct that it is also an instruction from the ECB to continue planning on that basis, but we would have done it anyway.

Q797 Chair: Mr Garvin, which scenario are you planning for?

Mark Garvin: Our priority is to serve our clients on an uninterrupted basis as of day 1 of Brexit. The clients are uppermost in our minds and it is our responsibility to plan for all eventualities. Our assumption has been a no-deal scenario, a disorderly exit—that is not, of course, what we want: what we are hoping for, of course, is an orderly outcome, but it is the most prudent thing to do. It is also what our regulators are expecting us to do and what our board has expected, so we are planning for a worst-case scenario. We are in quite an advanced state of preparation for that. As I said, our first priority is our clients and we have every intention to be ready to serve them as of day 1.

Kevin Wall: We are very consistent with what the other two have said. We are following the regulatory guidance that we are getting, not just from the ECB but more importantly from here in the UK as well. We have to be prudent, as has been evidenced by the answers to the question. That is what we are doing. Customers and indeed colleagues are the key stakeholders in terms of preparing for whatever the outcome might be, so prudence has dictated that we follow a very similar approach to the other two banks.

Q798 Chair: In June, the European Banking Authority issued an opinion that described banks' contingency plans and preparations for Brexit as inadequate. It was aimed at UK-based firms currently making use of passporting arrangements. Do you think that was a fair criticism as at June, and have your firms plans changed as a result of that opinion?

Kevin Wall: I cannot speak for other banks, but we have been engaged with the regulators both here and also in Ireland, and the ECB in Frankfurt, for quite a long time. Our understanding is that, in terms of our preparation, we would not be covered by that criticism, as it were, that was coming from the ECB.

Q799 Chair: One of the things, which perhaps applies to the other two as well, that the EBA was alleging was that banks were delaying efforts because they are trying to avoid costs, which is an understandable reason. Nobody wants to incur additional costs. Do you think that is fair? In terms of the Barclays attitude to spending money on preparing for Brexit, what internal pressures or support are you getting?

Kevin Wall: We have not allowed cost as a criterion to get in the way of our preparation. In the broader context of our cost base, we are not



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talking about a significant amount of money. Preparedness is the key here. Again, speaking for our institution, speaking for Barclays, the cost issue did not play into it at all.

Q800 **Chair:** Mr Garvin, what about the June opinion? Did it impact preparations? What about cost?

Mark Garvin: No, Chair. I cannot speak for the market but, as far as JPMorgan is concerned, we plan to be ready to serve our clients. We have budgeted for this. The amount is significant, of course, but we will spend whatever it takes to secure a solid outcome. I cannot speak for the market. Perhaps there are some wider issues that the regulators are aware of, but this has not changed our approach

Q801 **Chair:** Mr Bardrick, do you have anything to add?

James Bardrick: The position of Citi is that we set out a plan to prepare for the worst-case scenario so we could continue to serve clients on as least disruptive basis as possible. There will be change because the basis of rules is both uncertain and will change, but we planned for that outcome and have not changed our strategy in that regard. As far as cost is concerned, we have spent both the money and the time that has been necessary to get us to a place where we can be confident we have met the objectives of our project, which was to, even in the worst-case scenario, serve our clients with minimal disruption.

Q802 **Chair:** To all three of you, is there anything that you still are holding back on, on the basis of waiting to see what happens with the negotiations? I think there has been a concern that obviously things like applying for banking licences take time and that people were not making preparations for that early enough. Is there anything for which you are still waiting to see what happens this autumn before you press a button, or are you now good to go and where you expected to be, Mr Bardrick?

James Bardrick: We are pressing ahead with the implementation of the plans that we have made. At the moment, there is a very big focus on the very detailed discussions with a range of regulators in the UK, in Europe and, indeed, in our case, in the US to make sure that their regulatory and supervisory objectives will be met in the scenarios that we are planning for.

Secondly, we have begun a very extensive outreach to our clients. We have been talking to our clients right from the beginning of the process but we are now into a level of detail around specifically what options and services they require from what entities, based on their own needs and requirements. We are very deep into that and trying to get to a place where we have given our clients the certainty that they need and they are well positioned.

But no, everything is being implemented in line with the original plan and that includes hiring additional people in locations and for entities and roles that need to be added for that worst-case scenario and, where



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appropriate, transferring a limited number of people from our London operations to our European operations.

Q803 **Chair:** Mr Garvin, anything you are holding back on at JPMorgan?

Mark Garvin: No, Chair. We established a plan; we began our planning in August of 2016. We are now in full execution mode. We are in the very last stages of execution, in fact. A number of these initiatives are already in flight. In many cases, we have passed the point of no return. They are happening. Our intention is to migrate our commercial banking and to merge our wealth management business, the EU-focused businesses, into our Luxembourg bank. Those plans are already being enacted.

The JPMorgan AG Frankfurt bank will be the domicile that will be hosting our investment banking and markets business. That will take longer. It is more complex. Those two banks will be branching out across the EU-27 countries. We are not going to a single location; we are going to a more distributive model than we have had in the past. We are in active, very intense dialogue with regulators on both sides of the channel. Our UK regulators have been very helpful and constructive.

We have also been in dialogue with our clients to try to explain to them our plans to ensure that this is our Brexit. We are recognising many of them have their own challenges and we do not want to add to those, so we are trying to be as clear and as concise in our communications as we can.

Q804 **Chair:** You are very complimentary about the UK regulators. You skipped over the EU regulators. Have you found them—and perhaps this applies to all three—harder to deal with and harder to get clarity from?

Mark Garvin: No, actually not. They have been very helpful and we have made a number of requests, as you would expect. We require a considerable number of authorisations for all these entities and these new activities that we intend to conduct. They have been very helpful on both sides, yes.

Kevin Wall: Chair, I would echo that comment. I have had personal engagement with the Central Bank of Ireland, obviously, and the ECB; they are business-like, constructive, good discussions.

Q805 **Chair:** Before I hand on to Stephen, the Treasury of course has said it will be legislating for a temporary permissions regime to allow EU-27 banks to carry on doing business in the UK whatever happens in the negotiations. Do you feel that life is somehow being made easier for EU-27 banks passporting into the UK as opposed to UK banks passporting into EU countries?

Kevin Wall: There is certainly an asymmetry at the moment. It would be welcome if the asymmetry became a symmetry.



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Q806 **Chair:** You would welcome a temporary permissions regime clarity across the EU. You are all nodding.

Kevin Wall: That would be a preferable outcome, yes. There is a benefit to us operating out of the UK for EU financial institutions to have that access into the UK because clearly they are counterparts of ours in many respects, but this asymmetry is, as I say, an asymmetry and that is never a good thing.

Q807 **Chair:** Does anybody else have anything to add?

James Bardrick: The only thing I would add to that is one of the foundations of the UK and London success as a global financial and trading centre for a very long time has been an attitude of openness and globality. For us, it was not just very welcome but perhaps consistent that the UK authorities took the lead in identifying some of the more difficult scenarios that might occur with no deal and putting in place arrangements to try to address those risks.

We would certainly welcome equivalent action from the EU so that in very complex situations between our clients, it is not always a case of one regulator saying, "Okay", and that being it. Frankly, in many, many cases we need both regulators to be aligned in their objectives, to be working incredibly closely together with good regulatory and supervisory co-operation and to be having an aligned approach.

Clearly that will not be the case in all situations because their expectations and their starting positions are different. We would certainly welcome future action. As yet, there is an asymmetry. I hope before we get too far down towards the end of March, we would find there was more symmetry in the position.

Q808 **Stephen Hammond:** Good morning, gentlemen, and thank you for coming to give evidence. Perhaps we could just explore that asymmetry a little bit more directly. Given the absence of passporting arrangements and so far the smaller number of staff moving to EU locations than were initially expected, does that imply that to continue to service clients, you are looking to take advantage of back-to-back booking models? If so, given the regulators' previous scepticism about the amount of capital you will need and lack of risk management locally, has there been a change in attitude in the regulators towards these models?

Kevin Wall: In terms of back-to-back booking models, certainly in the discussions we have had with the regulators in Europe, the ECB and the Central Bank of Ireland, where we have landed—and this is the market; they are ensuring a level playing field—is that the models that we will all employ will be a mixture of back-to-back to parent, with some element of containing the risk in the entity itself and then some risk allocation to the rest of the market. That is a pragmatic destination.

Q809 **Stephen Hammond:** In your discussions with the regulator, they are moving to this solution on the basis that this is what the market has



dictated to them and they are prepared to accept that.

Kevin Wall: There has just been constructive dialogue in terms of the banking sector offering their views on these booking models and the regulators offering theirs. Where we have arrived at, as I say, is a pragmatic solution.

Mark Garvin: We have had intense discussions and workshops with regulators with the ECB as well as the national competent authorities on this topic. I would say two things. First of all, it is important to realise that centralisation of risk and therefore using back-to-back models is a business-as-usual arrangement in the markets business. It is not something that is unique to this particular set of circumstances; it is how we do business. Preserving that centralisation of risk management is very important to the whole notion of being a global bank and able to serve clients in a controlled fashion.

There is also a temporal dimension, which is that in order for us to make this migration of the financial ecosystem as it relates to the UK clients into the EU area, we will need to make and put in place some additional back-to-back requirements, which over time might come to an end at some point. There is something we need to do for the short-term but this is the way we run our businesses. We have had this discussion with regulators and we have explained this. There is a much better understanding about the importance of such arrangements to help mitigate risk.

James Bardrick: To add to the comments, Mr Hammond, there probably has not been a very public appreciation of the real level of granularity of individual discussions between individual institutions and various regulators, such as the ECB. Citi has had an ECB-regulated European bank headquartered in Dublin that pre-dates the referendum. That has given us a very good dialogue with our supervisor, the ECB and the Central Bank of Ireland. We have been in discussions as to what their regulatory and supervisory expectations are for the way in which we manage risk. As mentioned before, centralised risk management creates real efficiencies for the customer, for markets and actually from a risk management point of view, is much safer and sounder than highly fragmented risk management systems.

Finding the right balance with an individual regulator is what has been important. Again, with the BaFin, in relation to our new Frankfurt investment firm, discussions around how we strike the right balance between things that are controlled and managed on the ground and the retention of efficiencies and ability to serve clients are very detailed conversations. We will, as has been mentioned, get to a place where we meet each other's expectations on that. It will change over time as the new EU-UK relationship develops, forms and impacts the regulatory expectations of the regulators we are dealing with.

Q810 **Stephen Hammond:** The initial estimates of job losses in London were



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significantly higher than now appears to be what people are planning for. I wonder if you could give us some sense of why that expectation was so high initially, what sort of level of job losses you are expecting in London, and, importantly, attach that to what sort of capital you think you will need to move out of London to facilitate operations you will need to set up post Brexit?

Kevin Wall: I am very happy, Mr Hammond, to answer that question. If we start with people first, I would want to point out a couple of things. First, I do not think many individual firms made industry forecasts for the number of people. Some other organisations have done that. We have focused on what we thought we would need to change, including extra people on the ground in our European activities.

Citi has a very different starting point; we start from a point where 60% of our people in Europe are already outside the UK. As we look at the kind of model we need to move to, both for the no-deal scenario and various scenarios in the future, depending on the ultimate EU-UK relationship, we have looked at whether they are the right people or whether we need incremental and different skills in different places.

As a result of that, we came up with an estimate that is around 150, but it could be 50 or that order of magnitude different to that, but when you consider that is relative to a base of nearly 6,000 in London and 14,000 in continental Europe, you will see that this is more about putting the right people in the right place for the right roles, rather than wholesale movement of people. It is making our operating model work and meeting our regulatory expectations.

Mark Garvin: Mr Hammond, as I explained earlier, we have a very centralised model. London is our headquarters for our Europe, Middle East and Africa region. We operate a highly developed hub-and-spoke model. We employ 16,000 people in this country. Some 4,000 of those are in Bournemouth and 2,000 are in Scotland. We have the remainder in London. We have 2,200 people in the rest of the EU 27. The number of staff that we estimate would be required during the first couple of years, as we staff up these operations, in terms of the jobs we are looking at it is in the hundreds. You are quite right: these are not large numbers, speaking for JPMorgan. That includes both local hires as well as potentially people transferring as London.

One has to think of this as a process. Brexit is not a one-off big bang event; it is a multi-year process. What we are describing here is the number of people that will be required to staff up these operations. Yes, in our case we had these banks for four or five decades, but the scale and scope of these operations is going to be greatly increased as a result of the transfer of the EU business to the EU. These are what I would call day 1 type arrangements. It is very hard to speculate on what ultimately may transpire. That will be a function of a number of things.



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First of all, it would be a function of the ultimate arrangements that prevail between this country and the EU 27—the ultimate treaty-based arrangements one expects. Secondly, they will be a function of what our regulators require on both sides. Primarily of course in this case, we are talking about the ECB and the national regulators across the continent. Finally, there could be potential policy changes in both those areas. Most important are the developments in our industry going forward, in terms of digitisation. We just do not know enough about this.

What we do know is what the numbers are today but it would be difficult to speculate on what they might be in the future. One could envisage a scenario where those numbers could be substantially larger. That is, as I say, highly speculative but for the moment these are the numbers that are designed to get us ramped up to where we think we need to be to service our clients over the short term.

You asked about capital as well. We will make appropriate arrangements to capitalise these entities. In some cases, that has already happened. It is not a challenge for JPMorgan. We will be more than adequately capitalised to do our business.

Q811 Stephen Hammond: Mr Wall, can I ask you an initial supplementary? Given you are the biggest bank in Ireland, with £200 billion of assets—is it £200 billion of assets, effectively?—do you think in a no-deal situation, the EU regulators are going to be happy with the size and scale of local staff you have in Dublin?

Kevin Wall: As I have said before, we have been engaged in very detailed discussions with the regulators for quite a long time now. We have had no suggestion from them that our plans are not consistent with what they would want to see.

In terms of our numbers, we have been consistent throughout the period post the referendum result. We are looking at about 150 roles that would need to migrate from London into Europe. With us, most of those would move to Dublin. We are looking at about another 150 new roles in Europe that would be created as a result of this. In the context of tens of thousands of colleagues here in the UK, in the context of over 1,000 people in Europe already, those are small numbers.

Q812 Stephen Hammond: Could I ask a little bit about the White Paper, colloquially known as Chequers? Effectively, in that plan the Government scale back their ambitions for financial services. They basically abandon any attempt to look at a mutual recognition scheme. They explicitly accept that the future relationship with the EU will not have passporting and talk about an equivalence regime, which I want to explore in a moment. Can I ask what discussions you all had with the Treasury prior to Chequers and whether you see this as realism or just a disappointing back-down from the Treasury?

Kevin Wall: We are engaged in discussions with the Treasury and regulators here all the time, clearly on a whole host of topics, of which



Brexit or post-Brexit planning would be one. It is no surprise that the step down from mutual recognition was disappointing but we view where things are at the moment as a pragmatic place. Clearly, there is still not certainty or clarity as to how this will all ultimately play out.

Q813 Stephen Hammond: I was about to say. Given this is a step down from a better place, would you share with the Committee what you think enhanced equivalence will actually mean, in terms of notice period and transparency?

Kevin Wall: Equivalence, we all understand at the moment, has many holes or weaknesses, whether it is the scope of the system at the moment or the fact it can be withdrawn at 30 days' notice. For enhanced equivalence to be of value for the financial services sector, it would have to be as close to passporting as possible.

James Bardrick: My answer to that is that we have not tried to predict exactly what is or is not possible to be agreed or negotiated over a period of time. We have chosen to look at important principles. From our point of view, and serving our clients' point of view and the industry's ability to provide reliable and sustainable services across the whole of the region, the UK and the EU, we would always aim for the most open access and most mutual open access of EU and UK clients to various parts of the financial system, and for that to be achieved on a very sustainable and robust basis. That will absolutely require, in our opinion, very high levels of supervisory co-operation.

As to what form that ultimately gets negotiated into and what it takes and what label or name is given, it seems to us that it is quite important not to be too attached to particular labels because the devil will be in the detail, and how it actually operates for clients, for the underlying economies and the real economy is what really matters.

We will keep pushing for those principles of the highest amount of mutual open access to markets, the highest level of regulatory and supervisory co-operation and really robust levels of sustainability and predictability, in particular.

Q814 Stephen Hammond: Before I ask Mr Garvin, in your answer there, Mr Bardrick, you said it was important about the supervisory authority. Are you hoping that there will be some independent or new body that will supervise any new equivalence regime, or do you see it as an offshoot or an arbitration basis of one of the current regulators?

James Bardrick: In the great scheme of the things that Government in the negotiation have to solve, it will be issues around sovereignty and autonomy. What we would say is, "Here are the principles that we think are necessary to make markets work well, efficiently and to benefit the underlying customers in economies. To the extent that you can, within your wider agreement, get to a good place on those, that is what we would be urging people to do".



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I do not think we would feel it was for us to be prescriptive as to what form the regulatory co-operation should take. We just know that you need a lot of regulatory and supervisory co-operation in order for the system to work well, given the huge level of interconnectedness. By its very definition, it is very cross border.

Q815 Stephen Hammond: Mr Garvin, do you have anything to add?

Mark Garvin: The only thing I would add is that, as you know, the equivalency regime was not designed for these circumstances. This was designed for totally different, very specific other centres where the volume of activity and the interconnectedness pales into insignificance compared to the case of London and the EU 27.

What is required here for the industry to operate properly, to serve its clients and manage itself is not possible through the existing arrangements. It is simply insufficiently load-bearing for this industry. Something more bespoke will have to be put in place to give us the opportunity to service clients for what is going to remain the largest financial centre in this part of the world for the foreseeable future. It is very difficult to take something off the shelf and say, "This works". It will have to be adapted, and that is what we are very much hoping will be the case. The White Paper is a very constructive framework that one can work with.

Q816 Stephen Hammond: The White Paper actually explicitly says that they are hoping to extend the scope of equivalence, and your answer of extending the scope of equivalence and a bespoke arrangement is not that dissimilar. Can I ask: have you had fairly clear discussions or fairly detailed discussions with Treasury about what the extension of that scope might be? Also, have you had any discussions with the Treasury about the length of the equivalence notice period that will be appropriate?

Mark Garvin: We have had active dialogue with Treasury on all aspects of this, but I can tell you that the gaps are evident. We know what they are, so it is a matter of how best to address those. In terms of the time, what is required is a process. We are back to what a reasonable time horizon is.

One recognises one has to preserve autonomy of decision-making. That is the big principle that underlies this arrangement, but it also has to be accompanied by a process whereby withdrawal or amendments to that arrangement have to be done in a managed fashion so they do not create disruption. As to the time horizon, no, we have not been explicit about that but it is something we would obviously be happy to discuss.

Kevin Wall: I do not have a lot to add. We discuss with Treasury. We discuss with the regulators here. We discuss through industry bodies, many of whom have done a lot of very good work in this whole space. Ultimately, it does come back to trying to minimise as much as possible the impact on customers. Wherever we end up, that to us is the



overriding criteria. Anything that minimises, or preferably eliminates, any disruption is the best outcome.

Q817 **Stephen Hammond:** Mr Bardrick, have you had discussions about extensions to the scope?

James Bardrick: Sure. What we have said is in line with the principles that any system needs to be sustainable and predictable. For that reason, it would not be a sustainable and predictable framework if equivalence could be withdrawn at very short notice or if it could be withdrawn for no apparent reason that is not fundamental.

We do support the idea of agreeing processes and protocols that would provide those protections. Individual clients and individual firms can decide the basis on which they want to invest and how comfortable they are with the framework. The more predictable the arrangements can be and the more comprehensive they can be, the better.

Mr Garvin talked about the fact that the equivalence provisions in many, many EU directives were never designed with this scenario in prospect. There has also been inconsistency in the way that provisions for equivalence have been put in. Sometimes they have been left out completely, sometimes they have been minimal and sometimes they have been extensive. As we look at, for example, MiFID and MiFIR for securities and for institutional arrangements, and we look at the increasing trend of clients wanting to deal digitally and directly with exchanges, we worry that direct electronic access is not covered by an existing equivalence provision.

Now, where I go with all of this is that I genuinely do think that there is a lot of work to do here and there can genuinely, with ambition, good intent and good faith, be agreement on extensions in scope and processes and protocols to do this, but I very much doubt that those can be done by the end of March in the current circumstances.

I come back to how critically important it is that we do whatever is necessary to get to agreement on the withdrawal Bill and therefore allow the transition period for our industry to take place. That will then provide some time whereby these discussions can be extended and get to whatever place is ultimately agreed.

Chair: Another issue that I think is complex is derivatives and contracts. I am going to ask Charlie to question on that.

Q818 **Charlie Elphicke:** Before I come on to the derivatives side of things, I just want to pick up on the discussion that we have just been having. Were you surprised that the White Paper did not seek a stronger pitch, if you like, for mutual recognition and equivalence than the one we actually saw?

James Bardrick: Mr Elphicke, I think as articulated earlier, we were disappointed that mutual recognition as an approach was not pursued



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because for us, given the principles I mentioned earlier, it seemed to be the most robust way of achieving those. Clearly in the context of all the other factors that needed to be taken into account, it is not for us to determine what gets proposed or does not. We had very good access to the Treasury and other ministries and we were able to make our points. We ultimately will comply with what comes along.

Q819 Charlie Elphicke: Of course, but are you disappointed that the Treasury did not try harder?

James Bardrick: I would hope that the Treasury tried as hard as they could and will have made a decision based on all of the other factors. It was disappointing that we have not ended up with that type of framework, which we felt would be more consistent with the principles that I outlined earlier, but we are but one industry, although I would suggest a very important one when you think of the knock-on effects on the rest of the real economy.

Q820 Charlie Elphicke: And one that provides a substantial amount of tax revenue to the Exchequer.

James Bardrick: Correct.

Q821 Charlie Elphicke: Mr Garvin, you spoke about how you are going to have a whole distributed network, effectively of marketing-type offices initially. What do you make of the recent statement by the ECB that you could not just have marketing but had to have real risk transferred as well? What impact will that have on your business?

Mark Garvin: Mr Elphicke, that has all actually been taken into account in our plans. It has been made manifestly clear that these cannot be shell entities. That is perfectly reasonable. They should not be. They should have substance. What we are planning to have is not just sales and client-facing staff but a number of risk and other support staff that will provide them with sufficient substance that these entities can actually be robust, supervisable and properly managed. It is all built into those numbers I described.

It was never our intention to have a modest entity. As I said before, these two banks that we were mostly diverting our activities to have been fully licensed credit institutions for decades. We have considerable substance today; we will enhance that. We have actually been enhancing it in the course of a few months, so the regulators are making a perfectly sensible request. I would be doing the same in their place. We will do that. We will put those in place.

Q822 Charlie Elphicke: If they do that kind of assistance across the board, what kind of impact will that have in terms of the efficiency of financial services and, indeed, the cost of capital to businesses on the continent?

Mark Garvin: Today, we have possibly the optimal model, which is highly centralised risk management, centralised governance, distributed



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servicing and contact with clients and client relationships. This is a model that has evolved over decades, as you know. This is not something that happened overnight.

I have been in London for over 30 years. I have watched this evolve. This ecosystem was not built in a day. What we will move to is something that is more distributed and therefore less efficient. Our job will be to optimise that to the greatest extent possible for the benefit of our clients and shareholders over a period of time. That will create a new, more balanced alignment of resources. Yes, it will be a change to our operating model.

Q823 Charlie Elphicke: Is there a risk, then, that it might be politically attractive to the European Union but ultimately economically harmful to go down this route, as the Governor of the Bank of England seems to indicate as well?

Mark Garvin: I am sorry; what route?

Q824 Charlie Elphicke: If they go down this route. You were just talking about the efficiency and potential lack of efficiency. Could it actually be economically harmful to the European Union to pursue this kind of course of action?

Mark Garvin: It is premature to offer a view on that. What they are asking for is what regulators would ask for anywhere: operations that have substance and that are supervisable, transparent and resilient. I do not think that is an unreasonable request. As to the performance of these, time will tell.

Q825 Charlie Elphicke: The City has very much an open culture—open market, open society. Is that your sense of what the European financial market is like or is it more of a fortress, and is that less desirable, ultimately?

James Bardrick: Mr Garvin put it well. We start from a position where, over a very large number of years, things have been fine-tuned and optimised. The system has been able to operate in a highly efficient manner because it could, because of the passports. For that reason, as we move away from that model, and totally understanding and appreciating the need that EU regulators and policymakers will have in relation to their own requirements and expectations, I would make the observation that as you increase fragmentation, as you increase the complexity of the operating model, that will increase cost and risk. At some point, that is not good for the underlying customer and can, in aggregate, create a drag for the underlying economies, both in the UK and in the EU. I do not think this is a UK versus EU situation necessarily; it is more that if you have a less efficient overall system for financial services, it is more fragmented.

Let us be clear: if people have voted for a change and there has to be a change, and the politicians and the Governments have to agree what that



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change looks like, and that results in a change in the way things are allowed to be done, then there will be some reduction in efficiency and some increase in costs. There will possibly be a reduction in some services to some parties. We will obviously try to minimise those but we have to accept that if there is a change, there is a change. We will be compliant with it but we will work hard to try to continue serving our clients and offering them all the products and services that they currently get. We will just have to do it in a different way.

Q826 Charlie Elphicke: Obviously you are making that point to the Treasury. Are you also making that point to the European regulators and European Governments?

James Bardrick: Most certainly.

Q827 Charlie Elphicke: They need to understand the implications: if they are going down this route, it will potentially be harmful from the point of view of business and the cost of capital in the European Union and services.

James Bardrick: Most certainly. We have been talking, right from the outset, to all relevant stakeholders in the situation—policymakers, regulators, national competent authorities, the ECB—in continental Europe and the EU 27 as much as we have in the UK, as you would expect.

Q828 Charlie Elphicke: Everyone seems to take the example of derivatives and a potential dislocation of derivatives. What is your perspective on that?

James Bardrick: If we go to what our very short-term issue is, it will be around the enormous uncertainty and the lack of clarity as to, over a reasonably short period of time, where the system might go to, particularly in terms of a no deal, which is why the transition is absolutely so critical.

As we look at that, there are many, many things that we as individual firms and as an industry can try to solve for, even if they do bring extra levels of cost, fragmentation and the things I have mentioned, but they are manageable and we will deal with them. There are certain other things that are very, very difficult for individual firms to deal with.

If you take derivatives, as mentioned, the changing in the arrangements throws up real questions over whether derivative contracts and insurance contracts can actually remain valid. Our view is that the basic actions of an existing contract are probably okay, but lots of the other things that have to happen in the lifecycle of that contract may actually not be legal in the event of a no-deal situation. That, of itself, is causing enormous uncertainty with clients and the market generally, which will exacerbate any disruption effects if we get to that scenario.

We are aligned, really, with the view that I think has been expressed by the Governor of the Bank of England, by Sam Woods at the PRA and



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others that dealing with contract continuity, dealing with data and some of these other more fundamental issues is something that we think needs a public sector intervention and not just a firm-by-firm private sector intervention. For that reason, we really welcomed the proactive steps that the UK Government and regulators took recently.

Q829 Charlie Elphicke: In terms of that absolute dislocation risk, as I always think of it, of derivatives from a no-deal type scenario, the Government seem to think the risks of that fall most heavily on the European Union side of the ledger. What is your analysis?

James Bardrick: If you look at the shape and scale of the derivative market, you have to remember that London is operating as a global financial centre. It has very substantial economies of scale and concentration built up for all the reasons that were given earlier around London's development as a very efficient financial centre.

As a result, if that was to be disconnected significantly, it is probably true that the greater expense and greater fragmentation of liquidity and capital and consequent impact on customers may fall more heavily on EU customers.

My overall message is that it is not really good for anyone. It is not good for the UK, it is not good for the EU and we would like to see policymakers and regulators come together to address those issues. The UK has taken the lead. We would like to see the EU come forward and reciprocate.

Q830 Charlie Elphicke: We might be breaking up but it is in everyone's interests that we should still be the best of friends. That also includes data. This is my last question. Can I ask you very briefly about the issue of personal data? What you are going to do about data centres and also about this whole business about new model contracts enabling cross-border data transfer? Can you take us through that issue?

Kevin Wall: Exchange of data is critical, whether it is fighting financial crime, anti-fraud and terrorist financing. Anything that impedes that sharing as it exists at the moment is not good. Whether it is data, whether it is continuity of derivatives contracts, preferably some form of legislative solution in terms of UK-EU is the best outcome. If that cannot happen then obviously there needs to be some regulatory solution, and that is what we are hoping for. As I say, exchange of data across boundaries is critical, not just in a positive sense but also in terms of stopping things happening that should not happen.

Q831 Rushanara Ali: Good morning. Charlie has asked some of my questions so I will ask some supplementaries. On data, first of all, can you say a bit more about whether you are setting up new data centres in the EU 27 before March 2019 and how widespread that plan is? A bit more depth on that would be helpful. Also, are you putting the European model clauses into contracts to allow cross-border data transfer already? If so,



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is this a process that can be completed by 29 March? Perhaps, Mr Wall you can start and others can add to it.

Kevin Wall: Ms Ali, in terms of your first question, we are not setting up new data centres in Europe. We have data capture storage there already but we are not doing anything differently. We do not think we need to at this stage. Sorry, what was the second question linked to?

Q832 **Rushanara Ali:** It was about the European model clauses. This is in the context of planning for a no-deal Brexit, and you have been told to prepare for all eventualities.

Kevin Wall: Yes. As I said at the outset, certainly for Barclays it is the prudent approach, so we are preparing for that possible outcome. Yes, we have included that clause in contracts.

Mark Garvin: We have no plans to establish new data centres in the EU 27 in relation to Brexit. That has not changed. What we are doing—and this relates to your second question—is putting in place a number of protocols that will help us navigate if there is to be a disorderly exit. That will help us navigate the data management labyrinth in a manner that we can be comfortable with but, as you heard before, this is another one of these areas that, because it transcends financial services—we obviously have our own set of data issues that are very significant—these are matters that affect the whole economy.

Every industry will have to manage its data challenges. That is another example of where there is this need for collective action by the public authorities as opposed to this individual, bilateral arrangement, which is really and can only be a temporary solution to a much larger issue, which should be solved on a holistic basis.

Q833 **Rushanara Ali:** The Chancellor said that one of the scenarios we have to plan for is no data sharing. That could be because of a bad-tempered breakdown of negotiations or equally because in the absence of a common framework of law, we may not have a legal framework for data. That is coming now from the Chancellor.

We were all much more optimistic, before recent developments, that we would be close to an agreement by now, certainly in principle on some of this. That is not where we are. Do you see a situation where you would have to go beyond what you are saying now, in terms of having very different arrangements to cope with the disorderly situation, which is not of course what we want to see?

Mark Garvin: We will do whatever is necessarily to be in compliance but we will not be putting data centres in place between now and March. We are not changing our data centre strategy for this purpose.

Rushanara Ali: Under any circumstances?

Mark Garvin: We see no need for that, no.



James Bardrick: Ms Ali, my response is, I am afraid, predictably similar. We have no plans to change our data centres between now and March. That would not be practical and I do not think that is a reasonable course of action. However, we will be, in relation to our employees, using binding firm rules to allow us to deal with their private data in a way that allows us to have continuity of service to our clients and also to take the protections that are needed in the business.

We will be introducing model clauses, although that in itself has some uncertainties in the longer term. I come back again to there being another set of very good reasons to make sure we do get to transition. As Mr Garvin said, this is not about banking; this is not about financial services; this is about every single business and even non-business that operates across the region.

Q834 **Rushanara Ali:** You have all been very calm and measured in the face of what you are having to deal with. Earlier on, one of you—I think it was Mr Garvin—talked about the fact that the current arrangements are optimal and the changes in fragmentation would be sub-optimal; you did not use that word, but it will be sub-optimal. Can you say what the general perception is and feelings are in your organisations, given that your staff are having to try to make sense of all of this?

You are having to deal with a lot of uncertainty, including potential for larger numbers of staff being relocated. You mentioned jobs earlier. Obviously, the numbers are not as high in the immediate term. What do you forecast in the no-deal scenario as being the potential over the coming years in terms of the impact on staff in terms of numbers of jobs? How many, roughly? I know it is hard to predict these things but what is your anticipation of how many jobs would be relocated? What is at stake here? What is it like inside? I know in a Committee like this you have to give us more reassurance and the public more reassurance. What is it actually like?

James Bardrick: If I, Ms Ali, can have a stab at that, the first part of my answer would be to say that, as an industry, in our particular case we operate into 160 countries around the world, we are physically present in 100 and I can tell you there has never been a time in my 30-plus years with the organisation where there has not been something really quite dramatic going on by way of change. As a service industry, part of our job is to manage for change whether we like it or do not like it, whether we think it is the right outcome or wrong outcome. We have to do that. We have to serve our clients.

The longer-term answer to your question around jobs is it really just is impossible to say at the moment. That is because there is so little certainty as to what the future UK-EU relationship will look like that it is not really sensible to try to plan for such a wide range.

Q835 **Rushanara Ali:** Most of my questions are about a no-deal scenario. Leaving aside what we would like to see and wanting to see a different



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scenario, what are the implications of a no-deal scenario in terms of how much more it is going to cost you individually in your banks? Mr Garvin, you are vice chair of the British Bankers' Association. What is the general atmosphere there? What are the likely costs for the industry and what are the likely costs of jobs? You must have done some internal assessments of what it is going to cost you.

This is an opportunity for you to share that, where possible and appropriate. I represent a constituency that benefits from jobs in the financial services—not just the high end, but across the different levels. Nationally, we depend on the financial services, both for tax revenue but also for jobs. It is in our interest to know and it is your opportunity to tell it to us like it is in the case of a no-deal scenario. As I say, I admire your restraint but please do tell us.

James Bardrick: I can speak for Citi. As I mentioned at the outset, we do start from a rather unusual situation relative to others who have operated from London across the whole of the region, because we have 60% of our employees already outside in the EU. Therefore, it is more for us about getting the right people in the right place rather than large-scale transfers of people, even in the very long term in a very difficult no-deal situation.

The second thing I would say, as was referred to earlier, is that technology changes and our customers' expectations of how technology is used to deliver the products and services that they need over the longer term will probably have a bigger impact. At the moment, we have not found a way of accurately and with great value predicting what the five-year-out or 10-year-out scenarios might look like.

Q836 **Rushanara Ali:** Mr Garvin, what do you think, from a wider perspective from your role in the BBA as well as banking?

Mark Garvin: Just to clarify, the BBA no longer exists. It was merged into UK Finance, so I am no longer vice chairman of that.

Rushanara Ali: Sorry, yes.

Mark Garvin: I cannot speak for the industry; I can only speak for JPMorgan. There is no question that this has been an unsettling event for staff but, as Mr Bardrick explained, our industry is in a state of constant flux and I have to say, personally, we have been through far more significant turmoil than this. This is an event that we can very well manage.

Staff know that they live in a changing organisation. Compared to what is happening as a result of digitisation and other types of disruption, this is not a massive challenge. You were asking about a no-deal hard Brexit. We employ 16,000 people in this country. The vast majority of those staff are out of scope. There is no impact on them from Brexit, so we are talking about a minority of our staff in the UK—a relatively modest minority.



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We know, and I have given you some idea, of the numbers we have in mind of the jobs that will have to transfer. Some of those will be filled and those people will be offered the opportunity to move. Those who choose not to will have to look for other jobs. We know exactly which individuals are in scope. We are in active discussion with that universe of people, which is finite. Because we are managing to a hard Brexit scenario, this is within the parameters of our plans.

Yes, it is a period of uncertainty. What is important is to bring an end to this uncertainty as soon as possible, because we can deal with any scenario but uncertainty makes everyone very uncomfortable. From a staff standpoint, they really do want to know where they stand. The sooner we can tell them that, the better it is. I would say that, yes, there is a concern but it is no greater than it has been over many, many other events that we have witnessed previously.

Q837 Rushanara Ali: What would you compare it to? Is there a parallel, with equivalent levels of uncertainty?

Mark Garvin: We move staff across the world and jobs move across jurisdictions. It is in that realm of departments potentially transferring some of their functions to another country. This does happen in our company. It is part of the way we do business. It is in the realm of that. There are other considerations, possibly, for those staff who are EU citizens living in this country. They are in a special category because of their particular set of circumstances but it is in that order of magnitude.

Q838 Rushanara Ali: Mr Wall, did you want to add anything?

Kevin Wall: Yes, I have a couple of things in the context of having gone through ring-fencing here in the UK, which, clearly, for Barclays was a big project. Setting up an intermediate holding company in the States, again for regulatory reasons, again was a big exercise. What we are having to do around Brexit is comparable, as it were—or relatively, anyway. As you have heard from the other two, in our industry we face these challenges day after day now. Our European business is about 10% of the whole of Barclays, using a variety of measures. It is important, but it is 10%; it is not 90%, so you have to view the challenge here in that context.

Q839 Stewart Hosie: Mr Garvin, you said earlier that you would continue to serve your clients on an uninterrupted basis. Mr Bardrick, you said you would serve your clients on a least disruptive basis, which makes sense. Are there any groups or classes of customers who you may be unable to serve, temporarily or permanently, in a no-deal scenario?

James Bardrick: Thank you for the question, Mr Hosie. The original basis of our planning when we started this exercise, immediately after the referendum in 2016, was that we would have as a guiding principle that we would continue to provide the products and services that we currently provide to our clients to our clients in the future.



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We are careful to say, "With the least possible disruption", rather than there being no disruption because, in many cases, as we put together different legal entities and authorisations and a different model for doing our business that matches the legal and regulatory requirements of that scenario, it does mean that clients would have to find themselves doing business with another part of our organisation than the current one that they do.

They might be dealing with individuals who are sitting in different locations and are different people from whom they currently deal with, but all of that will be in the definition of trying to minimise the level of change. It was baked into the original plan, in our case, that we would continue to provide all the products and services and in all the geographies.

In our context, there is a strategic reason for that, which is that we are a global bank, we are largely wholesale and institutional in our nature and part of our fundamental value proposition is that we serve our clients with the products and services that they require wherever they want them in the world. There might be some countries affected by sanctions and the like where we just cannot do that legally and we will not do it, but the idea of us not serving significant parts of the EU 27 was never contemplated. We will continue serving all of our clients with all the products and services that we currently offer.

Mark Garvin: Mr Hosie, as I said at the outset, the clients are uppermost in our mind. Therefore, it is our intention to minimise the disruption to them, because we are also cognisant that many of them have their own Brexit-related challenges. We are confident that we will support our clients across all the services we offer today.

I would also say that for many of these changes to our operating model, these transfers of business are already taking place, so, a number of our activities, particularly the ones that I mentioned that are going to be relocating to our Luxembourg bank, will be concluded before the end of March. That really makes this a Brexit-agnostic matter for that very important set of clients.

The ones that are more challenging are the clients who are in our global markets business, because in those businesses we are heavily dependent upon the financial ecosystem, so we get into this question of market readiness. We are going to be dependent upon the entire ecosystem to operate appropriately, but we will do our best to make sure that that friction will be minimised. I am confident that we will be serving our clients and, at the moment, our plan is that all our clients will be receiving the same services that they have to date.

Q840 **Stewart Hosie:** Does the same apply to Barclays as well?

Kevin Wall: Yes. Our overriding objective, Mr Hosie, from the day after the referendum has been to plan to ensure that, in terms of the products



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and services that we provide to our customers, there is no change. That is not just for customers in Europe but customers in the UK, in the States or in Asia that deal with Europe. That is what all our planning has been about.

Q841 Stewart Hosie: That is helpful. However, the new framework—whatever it ends up being for each individual bank and dependent upon the type of Brexit we have—will not be the optimum arrangement that you spoke of earlier, so there will be additional cost. Will it be your intention to pass those costs on to clients or to absorb them into the banks?

Kevin Wall: The markets we operate in are very competitive and the dynamics of what happens to pricing and, as Mr Elphicke raised earlier, the impact on the cost of capital of everything that we are talking about are only going to be clear probably a few years down the track. At the moment, we are absorbing the costs that we are expending on this programme.

Q842 Stewart Hosie: Does that same answer apply to yourself and Citi as well?

Mark Garvin: Yes, Mr Hosie. We have not given much thought about what ultimately will be the additional cost of these services. We are very focused on execution. We expect that we will be absorbing these costs as part of our Brexit plans.

As I said before, we are in execution mode. Execution will then be followed by optimisation, and our job over the next few years will be to optimise those cost structures so that, in the end, they will be absorbed into the services that we offer. We have no plans to make explicit price changes to our clients as a result of Brexit, but again, the market is very dynamic and, over time, there will be changes to the way these markets price. It is difficult to predict that, but there is no question but that if the model is less efficient than it is today, there will be an additional cost.

History tells us that initially the industry tends to absorb those costs and, over time, the industry manages those costs in a way to reduce them and absorb them in their businesses.

James Bardrick: I agree with the comments made to date. I would just add that as we get to higher levels of complexity and expenditure, again, there is no explicit mechanism to pass on costs to clients. It is a very competitive market and if we find costs reducing, we typically find that those are able to be passed on, in part, to customers.

In the longer term, one has to assume that if the overall cost of the system and the overall risk of the system increases, because it has changed structurally away from something that is allowed to be optimum but cannot be going forward, then over the longer term you would expect a lesser amount of benefit to go to clients and the competitive system to work that out.



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I do think, though, that it will accelerate people's focus on the use of technology to manage that complexity and to manage those costs, looking at how you organise your resources to provide your services to your customers in the best possible way. In that respect, I would say that, whether it is the UK or any of the EU-27 countries, maintaining the conditions for competitiveness for the provision of those products and services is very important—availability of talent, the right quality of infrastructure to support our clients' businesses, a culture of innovation and change and, within that, robust, respected and globally consistent regulation, in particular in our industry.

All of those things are ingredients that are going to be very important in terms of making the decisions as to how we pursue cost savings and efficiencies in order to try to mitigate the impact of extra system costs on our customers.

Q843 Stewart Hosie: Mr Garvin, you spoke earlier about the impact that Brexit might have on your customers directly—not to do with the banks, but their own challenges. In a no-deal scenario, the risk profile of a number of your clients who depend or rely on integrated EU supply chains may change. How do you envisage the bank will treat its customers if their risk profile worsens as a direct consequence of the kind of no-deal Brexit we might face?

Mark Garvin: In terms of the risk profile of our clients, that will be largely a function of the macroeconomic conditions in the respective economies in the countries in which they operate and, of course, also some idiosyncratic phenomena of how they manage themselves, so I do not think I can draw a nexus between Brexit and their financial condition. That is hard to do.

The financial condition and, therefore, the risk profile of our clients is a function of a multitude of factors and, at the moment, I just do not see that there is a direct connection between this. There could be, over time, as the result of a dislocation, but it is far too early to predict. Of course, the economies, as we know, are very dynamic and these are multivariate factors, so their profile will be a function of many different considerations. Obviously, we will deal with that if and when it was to arise.

Q844 Stewart Hosie: I understand the answer you have given, but are the banks all prepared to show a little forbearance if, suddenly, their clients are carrying a great deal of extra risk as a consequence of an unexpected Brexit shock, say as a result of a particularly bad no deal? I am trying to get to the banks' attitude to supporting their clients in the event of what might be a short-term but nevertheless pretty bad Brexit shock.

James Bardrick: Part of our fundamental job is to constantly and dynamically assess credit risk and to serve our clients. Serving your clients involves seeing them through some of their less good times as well as their good times. Clearly, you have to do that in a way that, both from a prudential and a conduct basis, means that you are continuing to



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meet your regulatory expectations and those of the owners of the company and all the other stakeholders, including your employees.

We are constantly assessing and managing risk and looking at it holistically. I do not think there could ever be a situation where we would just ignore a very substantial deterioration in credit in a particular situation, whether that be a client or an exposure. We have to manage those things responsibly and will continue to do so, but we would always like to think that we would be looking to try to preserve our client franchise and help our clients through difficult times. This will certainly be one of them, particularly given the high level of uncertainty.

Mark Garvin: We enormously value and treasure our client franchise and have a track record of supporting our clients. I can hark back to the financial crisis in 2008. We stood by our clients steadfastly. We were providers of liquidity and we supported those clients throughout the crisis. We would do the very same thing here.

The other point I would make is it is very important, in order to do that, that the bank looks after its financial conditions. Only a healthy, safe, sound institution can support its clients, so we will have to do both, of course, but I do not foresee any circumstances, even under a shock, where we would be in a situation where we would have to add additional externalities to the financial system as a result of this event.

Kevin Wall: I have little to add. We have a similar approach. We are forever assessing different risk aspects as they relate to clients, depending on their sector, their geography, supply chains, size, et cetera. That has not changed. We are engaged with them on potential Brexit-related risks and, again, that will not change.

Q845 Catherine McKinnell: We have covered quite a lot of ground, but I wanted to try to look forward more in the longer term. I noted your comment, Mr Garvin, that as an industry you have been through much greater change than this, but obviously March 2019 has not happened yet. One of the big areas of concern is about jobs and jobs here in the UK, so I want to focus on that, if you will indulge me. I just want to touch upon the transition period. Assuming that it is agreed, what do you see as the main benefit, from your firms' perspective, for the transition period?

Kevin Wall: It gives us more time to do the things that we are all working on at the moment. At the moment, we are working on things that all have to be completed by the end of March next year. That is not a long period of time, so a transition period that is meaningful and has value, from a financial services perspective, reduces the execution risk. It is giving us more time to do what, at the moment, we are doing in a shortening or closing window.

Q846 Catherine McKinnell: Would you mind just elaborating? The transition period is not agreed as yet. It is anticipated but it cannot be assumed.



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Therefore, you must be preparing for the alternative. How does that work in practical terms for your business?

Kevin Wall: You have heard from all three of us that we are absolutely not making any assumptions about what the outcome might be. We have hopes otherwise, perhaps, but everything you have heard from the three of us today is all on the assumption that we are at one end of the scenario-planning and that we are able to have done everything that we are already working on, and have been working on for quite a long period of time, come the end of March. As I say, transition, were it to happen—and you are right; I do not think any of us are assuming that it is a done deal—

Q847 **Catherine McKinnell:** Will one of those key areas that transition will potentially assist with be the movement of people, depending upon what the final arrangements are in March 2019, to EU-27 countries, in terms of the staff who work currently in the UK?

Kevin Wall: The quick answer is yes, but, as you have said, until there is clarity around transition we cannot assume that.

Q848 **Catherine McKinnell:** Do you mean that you cannot assume that you will move them or that you will wait for the transition period to move them, so whoever needs to be in place needs to be in place before March 2019?

Kevin Wall: Until we know there is a transition, which we do not know today, we have to assume there is not one. Clearly, that is the planning that you have heard from all three of us.

Q849 **Catherine McKinnell:** Do you currently have plans for the transition period to move more staff to the EU-27 countries? That is not currently within your planning. Anyone who needs to be in place will be in place before March 2019.

Kevin Wall: Absolutely. Absent clarity around transition, the relatively small number that certainly we are talking about—about 150 roles—would need to be in place by the end of next March, yes. Just to be clear, that number will not change even with transition. We are not going to have a bigger number of people move if there is a transition period. That 150 number is what it needs to be.

Catherine McKinnell: That is helpful clarification, thank you.

Mark Garvin: The scarcest commodity we have is time. Time is one of the greatest contributors to the risk of this particular exercise, so we look at the possibility of an elongated timeframe as a very effective risk reduction mechanism to what otherwise would be a very frenetic event. Because we are planning for the worst case, we will have the requisite staff in situ as of day 1 and, as I said earlier, many of these transitions are already taking place, so they will be preceding the end of March.



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Transition allows this to take place over a longer, more controlled period of time, particularly as it relates to staff, because there are a number of people who have to make difficult personal decisions about housing, schools and families, et cetera, and that is a discussion that is much more easily taking place. The relocation also can be done over an extended period, which takes into account school years and things of that nature. It is something that helps reduce the risk profile, but we will be ready on day 1 come what may.

The other point I would make is that there is firm readiness—in our case, JPMorgan's readiness—and there is market readiness, and transition is also there to deal with many of what for us would be exogenous cliff-edge type events around the periphery of our bank. We have talked about contracts and recognition of market infrastructures; these are market-type events that take more time to deal with than just a few months, so it is a way of reducing risk. Those numbers I mentioned in terms of job transfers are the ones that we have in mind at the end of our target state, so those will not increase beyond what I mentioned.

Q850 Catherine McKinnell: It is not just about people either; it is about capital movement also. Given you have all described your plans for Brexit day, 30 March 2019—a fairly modest commitment of staff and resources in terms of movement—do you agree that the EU regulators are likely, if the transition period is agreed, to be looking for larger, better capitalised operations within the EU 27 to deliver that?

James Bardrick: Maybe I can answer the point both in terms of people and capital. I would like to start by emphasising two things around people. The first is that the message you will hear from all three of us in our particular cases is that the numbers we have given and the plans we have made are for the worst case. We have to implement those plans because we do not know we will get transition, but we could find that we do get transition and then the movement towards whatever the future state will be will be better than the worst case, but we will certainly have more time to manage that. When we say 150 or 200 people, that is our worst case.

I also wanted to pick up the point that Mr Garvin made earlier, which is very important. Our London operation is a very important part of our global organisation. A significant part of it relates to the service and provision of services and products to clients in the EU, but an even larger bit of it is around our UK and rest of the world activities. It is a truly global operation, so the number of people who would be impacted by any of the EU scenarios is way short of 100%.

The majority of our operations in the UK would not be affected by Brexit. Indeed, there are certain populations, such as the 2,500 people we have created jobs for in Belfast over the last decade, who are supporting the world of our client business, who would not be affected. It is important not to see this as London loses, Europe wins and it is completely binary; it is only a small part of our global operation.



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London will remain the regional headquarters for our group, for the Europe, Middle East and Africa region, from where we manage 55 country franchises. It will remain the headquarters for a number of our most important product groups globally. Globally, we run our markets business, our foreign exchange business and our transaction services business from London, and we have recently announced that we are putting the co-head of our banking, capital markets and advisory business in London. I just want to make sure that everybody understands that the Europe element of this is very significant and it is important, but it is not everything.

As far as capital is concerned, we are talking to our regulators, as both of the gentlemen beside me have said, and have been for a very long period of time, in great detail. We are talking to them about what the regulatory co-operation requirements they have to meet their supervisory expectations will be. As part of that, we are talking about what the appropriate capitalisation is, not only of the entities that we are expanding and developing.

In some cases, like ours, we have had a European bank for some time and it is ECB supervised, but we will use more of it in certain Brexit scenarios and we are in active discussions about what the right amount of capital is for that and how that then impacts capital that we hold in London, et cetera. All of those discussions are ongoing and will be agreed, again, on the basis of the no-deal scenario, which is the worst case.

Q851 Catherine McKinnell: You have touched upon a number of different Brexit scenarios and, Mr Garvin, I was going to come back to you following comments from Jamie Dimon, who said that if the UK does not secure preferential access to the EU financial services markets, at least 4,000 of JPMorgan's 12,000 UK-based employees will move to the EU 27. Is that still your best estimate? If so, how do we get from the 150 or 200 to the 4,000?

Mark Garvin: Ms McKinnell, the two numbers are not inconsistent. It is a matter of time; it is a temporal matter. The numbers I have mentioned, which are in the hundreds, are to do with the short-term horizon that we can envisage to get us through to March and then to what we call day 2, which is basically the fully staffed-up EU operations that we envisage having.

We just do not know what will happen in the future and, as I said at the outset, the evolution of our staff count and of our activities will be very much a function of the ultimate deal that is secured between this country and the UK—the ultimate settlement that is arrived at—and of regulatory decisions both in the EU 27 and in this country.

There is clearly a scenario where one does envisage that kind of outcome, but that is not a forecast; that is a scenario. It is a scenario that could be mitigated by a series of arrangements that we have been



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discussing this morning, which could put in place the protocols that are required to govern the relationship between London, as a global financial centre—the pre-eminent financial centre in this part of the world for the foreseeable future—and the EU countries. That is not inconsistent with the relatively modest numbers I have provided this morning.

Kevin Wall: Perhaps I could answer your question as well, on behalf of Barclays. We have seen no evidence that the European authorities are going to approve our solution here in terms of capital and then, the day afterwards, ramp up the capital request or ramp up the number of people that they expect to be in the, in our case, Irish subsidiary. We have seen no evidence of that at all. In terms of our number, the 150 is, as I said, what we would have to have in place by the end of March next year and we anticipate that there would be no meaningful additional transfers from London beyond that.

Mr Clarke: Gentlemen, thank you very much for appearing before us. I must apologise for my late arrival; I have been talking about greenbelt reform—the multifaceted life of an MP.

Chair: There is no greenbelt in the City of London, so we are okay.

Q852 **Mr Clarke:** Indeed, we are fairly safe on that. Mr Garvin, in your answer to Catherine a moment ago, you were talking about the impact of regulatory decisions and, I suppose, the fundamental question that will lie at the heart of our post-Brexit future is alignment or divergence with EU regulation. That lies at the core of how events will subsequently unfold. I will come in a moment to whether it is desirable to align or diverge, but in terms of the principles that should govern that choice, what do you think those should be?

Mark Garvin: We are a globally regulated firm, so we very much would like to see the principles as closely aligned to the global principles as possible. Those ultimate principles emanate from bodies such as the Financial Stability Board and the Basel Committee on Banking Supervision. Then, of course, in the EU the EU adapts those, and the UK, over time, will have to do the same in the UK. Because we are a global firm operating over many geographies, we would like to see those principles adhere as closely as possible to those global principles that are in place today, to evolve in a coherent fashion with them and to minimise the amount of divergence from them.

Q853 **Mr Clarke:** There must be costs associated with compliance with multiple regulatory regimes; is that fair to say?

Mark Garvin: Yes.

Q854 **Mr Clarke:** Therefore, having a significantly diverged UK regime might impose additional costs on your business.

Mark Garvin: Yes. To the extent that there is a fragmentation of regulatory regimes, there is no question but that that adds to the



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inefficiency and also to the risks of regulatory arbitrage, which nobody wants to see.

Q855 Mr Clarke: Obviously, the EU's future direction is like to be in the direction of banking and capital markets union. That is their stated destination or at least direction of travel. Given that we do not know where that process will culminate, Mr Bardrick, do you think it is wise or even possible for us to make a long-term commitment to align come what may?

James Bardrick: We are talking about alignment with global principles of regulation, and I could not agree more that that is something that we would like to see. It is not just about cost; it is around the efficient and optimised flow of capital from those who have it to those who need it, which ultimately ends up in good investment, creating prosperity, jobs and opportunity globally. That is really the thing that we think should be the guiding principle, rather than fragmentation and inconsistencies and certainly the risk of regulatory arbitrage, which stand in the way of that objective.

The mere fact that the future is unpredictable has never and should never stand in the way of people trying their best to provide the right services to their customers and trying to make the biggest and most positive impact on the economies and societies that they serve. As long as there is good process and good protocol in the relationship going forward, which allows for change—change may occur as life changes, as technology changes, as customer preferences and requirements change, as different parts of the world become relatively more predominant, as we have seen with the growth of Asia and other parts of the world—you need a very dynamic system that absolutely must have built into it the ability to change as things change. We are very happy to work in that system.

That is why we believe so robustly that any arrangement between the UK and the EU must not be a rigid agreement on day 1. It must have processes and protocols and, most importantly of all, really strong regulatory and supervisory co-operation and policy-maker engagement and co-operation to ensure that it does remain responsive to the needs of its citizens.

Q856 Mr Clarke: No one would disagree with that; that is a very sound statement of principles. Are there things about the current EU regulatory framework that cause any of your businesses concern? Leaving aside the fact that obviously the broad thrust would be towards wanting continued alignment, are there things that we could look at post-Brexit that, without imperilling that broad commitment that you would want to work in close alignment, you think are not working as well as they might?

Kevin Wall: We work clearly within that framework at the moment.

Mr Clarke: But were you to have a blank sheet of paper, which, in effect,



you do—

Kevin Wall: In terms of the mooted transactions tax, which is not in place at the moment, the financial services industry's views on that are fairly well known and that does not strike us as being an efficient way to have markets act efficiently. That is not here at the moment, so it is not a question of scrapping that.

Our view at Barclays is that this is not about some opportunity to have a bonfire of regulation in the UK. That is absolutely not what we are advocating. The UK has a very high and well-earned reputation globally for its regulatory framework and we would not want to see the scaffolding or the foundations of that change substantially at all.

Q857 **Mr Clarke:** In terms of opportunities with emerging markets, are there constraints that might be imposed on our ability to engage with those markets going forward if we are in close alignment with EU regulations in this way, or do you think that is largely a false dichotomy?

Kevin Wall: As far as we can see, doing what we wish to do in emerging markets will not be constrained.

Q858 **Mr Clarke:** That is really helpful. That is a very consistent message. In terms of a speech that Andrew Bailey gave on 6 September, he basically called for a system whereby market access is granted by reference to whether jurisdictions are in compliance with international standards. Do you think that is a realistic ambition for our future relationship with the EU?

Kevin Wall: I do. The proof of the pudding clearly will be in where we end up, but, as you have heard previously, it strikes me it is in everyone's interest to have as much regulatory alignment as one can get. We have that at the moment. It is encouraging that, notwithstanding the political debate that continues to go on, the dialogue between the regulators here and the regulators in Europe is a very good one.

James Bardrick: From Citi's point of view, as I mentioned earlier, we operate with clients in 160 countries around the world and are physically present in 100. A significant part of our business is around emerging economies and the growth economies of the world and connecting people with money with people who have good use for that money. If we can preserve the ability to be dynamic and allow investment globally to create prosperity, that is to be applauded.

We as a business—and I know for a fact our multinational clients, both investors and corporates—have, for many years, been seeking out business opportunities and development with other parts of the world, particularly in emerging markets. I can assure you that London and the UK, because of the qualities and the characteristics that were mentioned earlier, has benefited from that in some size. I do not see that changing.

Q859 **Mr Clarke:** Indeed. Mr Garvin, were there to be a decision to diverge,



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would you agree that that must be a matter for policymakers in Parliament to assess as much as for regulators?

Mark Garvin: Questions on divergence would be for both policymakers and regulators, certainly not for us. From our standpoint, as I described before, we are comfortable with the current arrangements. We have invested very heavily in complying with the post-financial crisis framework at a global level and at an EU and UK level, and all of these changes have been extremely positive and constructive.

Having said that, it is important to be alert to new developments. Our view would be that one should not rush in to focusing on potential changes, and I cannot point to this or that regulation that I would suggest be undone at the earliest opportunity.

One should be very alert to the impact of technology, new products and innovation and this is where the UK and the UK regulators have an extremely good track record. The UK should fall back on its historic tradition of British empiricism, fact-based analysis, focus on outcomes, pragmatism and global openness to markets. These are the great strengths that have made London what it is, so it is mostly, to my mind, a question of attitude and mindset, as opposed to this or that rule or regulation.

Mr Clarke: That is an incredibly positive note on which to end my questions. Thank you very much indeed.

Q860 **Chair:** Very good. I have two final questions before we let you go, just following on from Simon's points. Mr Bardrick, you mentioned the word "competitiveness" earlier on and, Mr Garvin, you talked about avoiding a situation of regulatory arbitrage. It is sometimes suggested that we give UK regulators a statutory competitiveness objective—this is different from competition—after Brexit, although it is suggested that having too much competitiveness might have led to the situation we all found ourselves in 10 years ago. I wondered if you had a view on those who call for a competitiveness objective to be added to UK financial services regulation when changes are being proposed. Mr Bardrick, do you have a view on that?

James Bardrick: I do not have a particularly strong view on where the focus on competitiveness should be. I would have thought that, given the very wide-ranging factors that affect competitiveness over the longer term, it might be difficult to park with specific regulators and might better be handled through the Treasury and government policy.

When I think about it, we are not just talking about talent and infrastructure; we are talking about tax, which is a subject that is changing in the world, and we are talking about a culture that allows, embraces and encourages new innovation. One of the biggest opportunities that we have is to be a safe place for the fintech industry to



develop from, working in partnership with the established players, et cetera.

I mentioned earlier around emerging markets and I said that I did not see that, for our clients, Brexit of itself, or the changes that might come about, would be the big determinants of the future success of London as a global financial centre ongoing, but we need to keep watching as to what we do and how we do it, and probably be looking at where you have enormous parts of the population growing and reaching middle class and getting into a level of sophistication; it may be that the competing financial centres of the world are not Paris or Frankfurt, but they may be in Asia or other parts of the world. Just generally, competitiveness is a very big topic, but it is a very long-term topic that needs very careful attention by policymakers.

Mark Garvin: The PRA and FCA already have in their mandate a need to take competitiveness into consideration. If the question is about heightening that focus on competitiveness, as Mr Bardrick said, competitiveness is a much broader topic. It is not just about the regulations or the rules; it is about the design of the financial ecosystem and, indeed, of the economic infrastructure that supports it. It is to do with topics such as quality and availability of staff, critical mass, education levels, tax, et cetera. That mandate belongs slightly at a higher level than just at the regulatory level, but it is very important, of course, and something that needs to be taken into account.

There will be opportunities, but once again we would caution against looking at this or that in particular; instead, look at it more holistically, allowing for a reasonable passage of time beyond this very tumultuous next few months, to understand really the financial topography both globally, which is very important, as Mr Bardrick explained, so as not to lose sight of the global dimension, and also the evolution of policymaking in the EU 27, in terms of the direction of travel of those countries.

Kevin Wall: I have little to add. Clearly, the UK has been competitive in financial services over decades and centuries. One would want that to continue and I have no doubt it will continue.

James Bardrick: Could I just add one final thing to that broader definition of "competitiveness"? We have spent a lot of time talking about Brexit and its possible implications, about rules and regulations, and I completely understand that. As I think about what we, as an organisation, have been doing, I talked earlier about how proud we are of creating over 2,500 new jobs in Belfast and the impact that has had on our operations globally. That, for me, is a very different type of improvement in competitiveness, because of the quality of people and the cost effectiveness that that has provided.

We have talked about the numbers of jobs that may change because of Brexit, but we have just also set up a new innovation lab to make sure that our markets business can work in conjunction with the fintech



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industry and put 60 new jobs in London from that. These things all have to be looked at. The nature of what we do and how we do it may well change, it should change and it will change, but competitiveness is not just about regulatory barriers and short-term expenses.

Q861 Chair: I want to return, finally, to a couple of points on Brexit that we have not covered. Mr Garvin, you talked about the ecosystem and the City of London having a very strong ecosystem. Asset management is something we have not touched on this morning. That is a pretty critical part of London's ecosystem, and there have been proposals in the EU to revisit existing arrangements about funds delegating management to non-EU countries.

Of course, from 29 March next year the UK will be a non-EU member state, all things being equal. Do you agree that, if those delegation arrangements were no longer in place, that could cause issues? What would your firm's response be if asset managers were forced to relocate to the EU 27?

Kevin Wall: It comes back to this broader question of the interconnectedness of all these elements of the financial services industry. Asset management is one aspect of that. Again, we all have to prepare for what could possibly be one scenario at one end of the spectrum, which you have heard a lot about from us. The hope is, whether it is asset management or continuity of contracts from a derivatives perspective, that as close to a preservation of the status quo as possible exists post the end of March. Fragmentation, as you have heard from us, is not a good thing.

Q862 Chair: Certainty about the rules around delegation is as important, really, as all the issues we have been talking about—derivatives contracts and insurance contracts, for example.

Kevin Wall: Yes. It is about certainty, whether it is about transition and what it means and when it happens. As all three of us have said, we are just getting closer and closer to that date at the end of March and, clearly, there is a lack of clarity in many regards still. Whether it is asset management or some of the other areas we have touched on, you have heard what we are looking for.

Q863 Chair: From a JPMorgan and Citi point of view, if the asset managers were forced to relocate to the EU, what would that mean in terms of internal decisions for your businesses?

James Bardrick: Enough has been said about the fact that, just from an efficiency, optimisation, cost, expense and risk point of view, that would not be a good development; it is in a similar direction of travel to those other things. What I would say is, over the longer term, remember that we are a service industry; if our customers are physically removed from around us and they determine that they want to be serviced more locally, we cannot ignore that. We would have to work out the best way that we could deliver services to them.



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We would strongly believe that that was a retrograde move for the industry, but we would also say it was not a particularly smart move in terms of improving the efficiency generally of the European financial system and its ability to connect people who have capital with the people who need capital. That fragmentation is wrong. I would just say that we are driven by our clients and serving our clients, and all of those things, in the longer term, can have an effect.

Mark Garvin: The delegation rules are integral to the global supply chain of global funds management, so if those delegation rules are changed, presumably they would be changed for all countries. Fund managers live all over the world. These delegation rules have been also essential to the value proposition of the UCITS brand. Our view is that tampering with these delegation rules is deeply injurious to the UCITS proposition, which has been one of the great success stories of the EU, so it would be a potential policy error to make great changes in this area.

Q864 **Chair:** It would be as damaging to the EU as it would be to the UK.

Mark Garvin: It would be. One can go back to the topic of substance in some of these EU-based units, yes, but if one forces fund managers to move, that is a much bigger topic than just Brexit or the UK; that is a global event.

Q865 **Chair:** Mr Garvin, I have just one final question. Regarding JPMorgan's European headquarters serving your Europe, Middle East and Africa businesses, is the intention that they will remain in London regardless of the outcome of Brexit negotiations?

Mark Garvin: Yes, absolutely.

Chair: That is very helpful. Thank you all very much indeed for your time this morning. You have been very generous in sharing your thoughts and insights on current preparations. We are very grateful for your contributions.

James Bardrick: Thank you for giving us the opportunity.