Written evidence submitted by the Office of the City Remembrancer, City of London Corporation

Introduction

1. The UK financial and professional services (FPS) sector appears to have coped well with the impact of the Covid-19 crisis. Firms have reacted with agility to adopt work-from-home models, helped by their previous investment in technology, and UK regulators have been both responsive and flexible. Capitalisation and liquidity have also held up well, thanks to some of the measures adopted after the financial crisis a decade ago.

2. The current crisis has, however, highlighted that the UK will need to compete with other jurisdictions for private investment. The UK has been overtaken by France for the first time in two decades as Europe's top destination for foreign investment.[1] It is now more important than ever to maintain the competitiveness of the UK's financial services sector to lead the long-term recovery, both in the UK and globally. For the UK to maintain its international competitiveness and its pre-eminent position as a global financial centre, it is vital that it retains its openness to overseas capital and investment which have been a key part of the City's success. Maintaining openness to inward investment from across the world helps to support job creation and economic growth. The markets also act as an international public good; they support better risk allocation, lower the overall cost of capital and foster global liquidity.

3. In the absence of physical contact with City stakeholders, the City of London Corporation, through the Lord Mayor and Chair of Policy and Resources, has undertaken a series of calls with over 100 key stakeholders in UK Financial Services at CEO/Chair level to discuss the impact of Covid-19 on their businesses, the UK's recovery and to identify areas for cooperation. Participants in this Virtual Engagement Programme include City firms, overseas investors, cross-UK partner cities and international partner financial cities such as Tokyo, Singapore and across China.

4. The objective of the programme is to listen, to share best practice, highlight key areas of concern and to offer support where possible. This feedback and intelligence will be used to inform government and to help focus future work. Initial findings indicate that senior figures are keen to engage. In the immediate term responses appear well organised, with technology and the constructive approach of regulators crucial.

COVID-19

5. The UK government and regulators have taken decisive and coordinated policy responses to the Covid-19 crisis. Much of this has been done in coordination with regulators in key jurisdictions. The challenge now is to manage the winding down of temporary support measures and to develop longer-term support for businesses during the recovery phase. In the UK, the strong level of co-ordination between HM Treasury and regulators should continue and, internationally, global regulators are urged to work together to coordinate to ensure that measures to support the recovery do not promote fragmentation or protectionism.

6. The City of London Corporation has worked closely with TheCityUK and the sector on their recapitalisation of businesses work. This work, chaired by TheCityUK Leadership Council Chairman Sir Adrian Montague and supported by EY, recently published an interim update[2]

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[1] https://www.thetimes.co.uk/article/uk-loses-foreign-investment-crown-to-france-after-two-decades-at-top-57cllp0g9

[2] https://www.thecityuk.com/assets/2020/Reports/0f344729ab/Recapitalisation-group-Interim-update-v2.pdf

which estimates that the need for recapitalisation due to unsustainable debt is approximately £100bn and about half of that sits with non-quoted SMEs. There may be a private-sector solution to this problem, but there may be a need for some level of ongoing public sector involvement, reflective of the fact that the government is already underwriting a big portion of this debt. Success will be reliant on identifying the right delivery mechanisms, which is work in progress, and a key requirement for any proposed solution is that they work for businesses right across the UK. A final report will be published in July.

7. Two major themes have begun to emerge in the City Corporation's virtual engagement. First that many firms recognise the importance of technology during the crisis and note the need for continued government support of the sector. Secondly, firms have also recognised the opportunity to link climate change policies and Environmental, Social and Governance activity into the recovery phase.

Technology and Innovation

8. The financial services sector's strong investment in technology has been instrumental in its ability to adapt and continue to provide essential services to customers during Covid-19. FinTech is also helping to empower resilience globally and will reshape how business is conducted in the future. LawTech is assisting firms in maintaining business continuity, with cloud-based tools that enable electronic signatures or transaction management. It is also instrumental in building virtual infrastructure for firm and client collaboration, introducing new ways of working that address changing demands such as costs, training, or speed of work.

9. The technology community needs continued government support to protect the UK's competitive advantage on innovative financial services. The technology sector, and all growth and early stage businesses, report disproportionate effects from Covid-19. Many are facing increased competition for funding to survive and grow. If there is decreased competition due to small and medium-sized businesses exiting the market, this could stifle innovation over the long-term.

10. The industry recognises and appreciates the effort that government has put in place to support them through the Coronavirus Business Interruption Loans Scheme (CBILS) and the Future Fund. However, some businesses have found it difficult to access the schemes, leaving them vulnerable to a sizeable growth capital gap when they should be investing in new products and services to take advantage of this period of economic change and disruption. Many FinTech companies have not been eligible for CBILS as they are classified as being in 'financial difficulty' under EU state aid rules. The EU recently agreed to extend the temporary framework it introduced in March that exempts loss-making companies from falling under the state aid rules. Now that this restriction has been lifted, the CBILS framework should be altered to allow FinTechs to access these loans.

11. The Future Fund's structure as a Convertible Loan Note eliminates Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) angel or other equity financing. This has been a barrier to access the Fund for many early stage FinTechs who often use these schemes to encourage investment from small partners such as angel investors. If further relief for start-ups is introduced, the government could allow co-investment through Advanced Subscription Agreement structures, which are compatible with EIS/SEIS investment.

12. The City of London Corporation is committed to supporting technology and innovation in financial services. Along with Innovate Finance, the City Corporation will act as secretariat on the strategic review into UK FinTech, commissioned by HM Treasury and led by Ron Kalifa. The Review will analyse what is needed to build on the early successes of the UK's

fintech ecosystem including taking account of the impact of Covid-19 to ensure that UK fintech continues to thrive.

Embedding sustainability into finance

13. Covid-19 has demonstrated the resilience of sustainable investment. The core thesis of ESG – that non-financial risks can be as material to resilience as financial risks – has come to pass as ESG strategies outperform in the global economic downturn. It is now widely agreed that sustainable finance will be a core principle of recovery. It will be important that the UK is at the forefront of describing and actioning the components of what the green led recovery will entail. It will be equally important to demonstrate that London is seen as a resilient and environmentally and socially responsible financial centre of the future and continues to demonstrate leadership on social and governance factors – the “S” and the “G” of ESG.

14. The City of London Corporation is committed to working with governments and financial services firms to achieve a green and socially responsible recovery and to ensure that London sustains its position as a world leading financial centre for sustainable finance. The City will host a green finance summit in November 2020 to act as a landing point for private sector green finance initiatives and related announcements, as well as a launch pad ahead of COP26 in Glasgow. The International Regulatory Strategy Group[3] is looking at what new policy and regulatory measures could be developed to support greening the recovery as well as developing industry thinking on social global standards.

Future implications for tax and spending

15. Covid-19 has put an increased pressure on the levels of public debt which will need to be addressed. It is important that the government avoid a precipitated introduction of measures to deal with the level of public debt that could restrict business growth and recovery and damage the UK’s long-term competitiveness. The City of London Corporation remains committed to boosting the competitiveness of the UK’s world class business environment.

16. The City Corporation wants to work with government and industry to develop a long-term plan for fiscal policy that considers innovative approaches to financing and funding and consolidates further UK’s attractiveness and competitiveness as a financial centre. Identifying the right timing to implement these measures will be key to avoid premature action that could damage or delay economic growth. Work in this area has just begun, gathering evidence from industry and other jurisdictions that could help inform the best way forward.

Future UK-EU relationship

17. The UK and the EU are rightly prioritising the need to tackle the Covid-19 outbreak. The current public health emergency has had a significant impact on negotiations on the future trade relationship, even though they have restarted recently. The December 2020 deadline is ambitious, but this is true even more so now given the need to focus on a wide range of other priorities. It is critical the services sector is not sacrificed in the rush to get a deal.

18. At approximately 80% of the UK economy, the services sector is its lifeblood and vital to growth – the future framework must take proper account of this, securing maximum market

[3] The International Regulatory Strategy Group (IRSG) is a practitioner-led body comprising leading UK-based figures from the financial and professional services industry. It is an advisory body both to the City of London Corporation, and to TheCityUK.

access and developing a structure for the UK economy to prosper in the years ahead. The government should continue to pursue a deep and ambitious free trade agreement with the EU and progress on this deal must be made as quickly as possible.

19. Firms have undertaken a significant amount of planning for the event of a no-deal over the past few years. However, some cliff-edge risks remain, and the industry urgently needs certainty to finalise their preparations.

20. Equivalence assessments and determinations will determine the rights and regulatory and prudential treatment applicable to Financial Services firms. These assessments and decisions are ever more important to the industry in the current Covid-19 context to ensure market stability and prevent fragmentation. Despite the impact of Covid-19, HM Treasury and the UK's regulators continue to work towards the end of June 2020 deadline to complete the UK's inbound equivalence assessments.

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