The City and UK Financial Services

A Strategy Paper

By Gerard Lyons

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About the Author

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Contents

Bullet Points

- The City has suffered from benign neglect, and now needs the Government to go into battle for it.
- A strategy and clear vision is needed for the City and UK financial services.
- That strategy can outline a bigger role for the City in helping the UK economy at home and overseas, and pinpoint how to improve the City's competitiveness in the face of an aggressive EU and intense global competition.
- Financial services have a critical role to play in achieving the levelling-up agenda and in delivering more balanced economic growth.
- The UK should stand its ground in the face of the EU's stance. This points to the need to diverge from the EU on financial services regulation when it suits and to make London the attractive venue for parallel markets in euro-denominated instruments. There is also the need to reassess the resilience of the UK financial ecosystem.
- London's competitiveness depends upon: safeguarding or enhancing its inherent characteristics such as the rule of law and infrastructure; its regulatory environment; and being a place where clients want to conduct business, helped by deep and liquid markets.
- A new eight-point plan to revitalise financial services regulation is proposed, based upon clear principles, endorsing and promoting global standards and being at the forefront of modernising regulation.
- Re-examine MiFID II and Solvency II and, within this, re-establish the City's expertise in research and, also, strengthen London's position as a global centre for insurance.
- Strengthen the City's infrastructure, including data centres.
- Take steps for the UK to excel in future growth areas such as digital currencies, FinTech, Green Finance, Islamic Finance and electronic and automated trading. Governments should not aim to micro-manage, but to help provide the incentives and to create the environment in which London and UK financial services will thrive.
- Amend the structure and remit of committees in Parliament to ensure accountability of the financial services industry.
- While it is important to be realistic that, in some areas and for some firms, leaving the EU has created challenges and triggered change, it is time for the UK and the City to outline a clear, positive message that changes the terms of the debate that is often pessimistic and wrong about prospects for the City.
- There are 26 policy recommendations.

1. Executive Summary

The conclusion of this report is that there is a need for a strategy and vision towards the City and UK financial services. This is policy recommendation A.

The report addresses the consequences of the 2016 Referendum result, future prospects in a post-pandemic world and offers proposals aimed at addressing immediate challenges facing the City and financial services to ensure continued success. It recognises that we should continue to heed the lessons of the 2008 crisis and not lose sight of the need to ensure financial stability.

The main message is that the UK's departure from the EU provides a golden opportunity for the City. However, it is not just leaving the EU, but what we do now that we have left that is key. While there are inevitable near-term, predictable challenges from leaving something we have been in for over four decades, these are overwhelmed by the opportunities, provided we act to garner these.

The City, itself, should not be immune from criticism but there has been a policy of benign neglect in Westminster towards UK financial services for much of the time since the 2016 Referendum. In normal times this might not matter. The City often prefers it when politics stays well away. However, on this occasion, the City needs a Government that is prepared to go into battle for it. The latest signals from this Government suggest room for encouragement. At the same time, the City needs more voices from within to champion it.

The strategy should include the City's role in delivering economic growth

The future strategy towards UK financial services should have **two overriding aims: the first is to strengthen the link between the City and the economy.** This is an exciting prospect, ensuring that the City and financial services adopt a lead role in addressing economic opportunities, helping to rebalance the economy and deliver strong, sustainable UK growth. This forms the basis of policy recommendations B to H.

One policy proposal is **closing the funding gap faced by small and medium sized firms**. Incredibly this, 'the Macmillan Gap', was first identified 90 years ago and still exists today. In 2019, according to the Bank of England, it was a mammoth £22 billion. It is remarkable it has not been a policy priority that has been delivered upon before, but it should become one now.

Another policy proposal to bolster future growth is for regional hubs across the UK, boosting local economies and providing a pull-factor to **onshore back-office and other services to cities and centres across the UK.** These proposals would support, directly, the government's levelling up agenda, while helping bolster UK growth prospects.

The levelling up agenda, too, can be supported through funding infrastructure investment and, very importantly, **a greater focus on financial inclusion** and banking the unbanked.

The City can also help deliver upon the UK's global economic vision. While the pandemic will trigger change, it is also clear that two pre-pandemic economic drivers will play a dominant future role: the digital and data revolution; and the shift in the balance of power to the IndoPacific that stretches from India in the west to the US in the east. While the UK, naturally, should have a sensible post-Brexit relationship with the EU, this should be alongside addressing domestic economic issues and positioning itself to succeed in the changing and growing global economy. The City and the financial services sector can help the UK economy, domestically and globally.

Action is required to support and boost the City's global competitiveness

The second aim of a future strategy towards financial services should be to strengthen the City's competitiveness. Policy recommendations I to X propose ways to address immediate challenges and to seize opportunities.

The UK is facing an aggressive competitor in the form of the EU that is seeking to undermine the position of the City. While the UK should embrace open markets, the authorities here must stand their ground and push-back against the EU's protectionist approach.

It is time for the UK to push back with a consistent approach and a clear, positive message that changes the terms of the debate that is often pessimistic and wrong about prospects for the City. This report outlines proposals to ensure that London remains the major financial centre of Europe and one of the leading financial hubs in the world, with its main future competition likely to be from New York and centres across Asia.

The success of the City depends upon three dominant features: its inherent characteristics; the regulatory environment; and being "the" place where clients want to conduct business because of its liquid, deep and broad markets. This report outlines what is needed to ensure that the UK is well positioned in each.

The City's inherent characteristics provide a strong foundation. English Common Law is, perhaps, the most important of these characteristics and should be valued as it underpins sophisticated financial services. If one was pessimistic about Brexit, these characteristics might be termed Brexit proof. In contrast, if like me, one is positive about the opportunities afforded by Brexit, then these inherent characteristics provide a strong foundation on which to build.

The regulatory environment has been a vital success story of the City. There is a need to ensure that this is still the case in the future.

For a 21st century leading financial centre there should be a series of over-riding themes, highlighted by policy proposals J to M. It is vital, too, that the lessons of the 2008 global financial crisis are retained, including the need to ensure financial stability.

The UK needs to outline clear regulatory principles and continue to play an important role in endorsing and promoting regulatory standards at a global level. It will. The UK should not be a rule-taker and should set its own approach within the framework of the highest international standards.

The bias should be towards less burdensome regulation that holds back growth without enhancing stability. **The focus should not be on gold-plating or on a race to the bottom but on smart regulation that makes sense in the areas to which it applies**. Protecting consumer rights is essential. In future, regulatory success should be measured against the impact on the economy and on London's competitiveness, as well as achieving financial stability. We should aim to keep the cost of regulation down but also aim to take regulation to the next level, with real time regulation as the standard. All this should be within the context of appropriate Parliamentary scrutiny.

Ultimately, success will be based on London being seen as the most attractive place where people and firms want to conduct business in and from. **This report encourages the UK to embrace open markets.**

Deep and liquid markets are vital. The UK's competitive position, compared with the US in the 1960's, helped London to become the home of the offshore dollar market known as the 'euro-dollar' market, where the term euro meant international. Now, the EU's approach is leading to fragmented markets in euro-denominated products. This provides an opportunity**, with the City as an attractive venue for parallel markets in euro-denominated instruments** - a legitimate offshore trading centre of euro-denominated securities. **This should see the 'euro-euro' market grow now in London**, like the euro-dollar market all those decades ago.

The City's infrastructure is first-class. Very importantly, there is a need to assess the resilience of the UK financial eco-system and not take anything for granted. **One area of strategy should be a risk assessment of how policy can help.**

Take the matching engines, important contributors to London's success. The likely loss of the one in Basildon, influenced by political pressure from overseas, as well as costs, should trigger a policy focus on ensuring all is being done to retain these. Likewise with clearing houses. Similarly with data centres, where investment is huge across the globe.

Policy should be focused on ensuring that this remains the case, with policy recommendations U and V highlighting the importance of retaining matching centres, developing a cloud-hub and investing more in data capacity.

The good news is that the tide is now turning in Westminster's approach towards the City. This year has already seen the Kalifa and Hill Reviews, focused on technology and on revamping the approach to listings, respectively.

Encouragingly, as this report identifies, the City can position itself well in a number of the already identifiable growth markets such as Financial Technology (FinTech), Green Finance, Islamic Finance, electronic and automated trading and perhaps even digital currencies. In all of these, though, far more needs to be done, and in the face of intense competition the City needs to ensure it has all the tools and regulations in place to be able to specialise fully in each of these areas.

This report recommends a review of both MiFID II and Solvency II. An unintended consequence of MiFID II has been a collapse in spending on research, and this demise needs to be addressed, as independent research has been one of many hallmarks of the City's success. At the same time, however, **the need for transparency on fees, contained within MiFID II needs to be retained**, as it reflects the importance of transparency in financial services and should help build people's confidence in UK financial services.

The structure and remit of Committees in the UK Parliament needs to be amended to reflect the importance of financial services and the changes that are now merited having left the EU. Policy recommendation Y advocate the creation of a specialised committee of both Houses of Parliament to look at the specifics of financial services legislation. These new committees would need to engage more, on a rule-by-rule basis with the regulators, and not take a hands-off approach.

Finally, policy recommendation Z echoes the first recommendation of the recent Hill Review, for the Chancellor to make an annual statement about the City. A new structure needs to be created around this, to ensure all aspects of the City are represented, perhaps there could be a semi-formal, quarterly meeting to which all relevant City groups are invited**. Perhaps this should be entrusted to produce a regular 'Barriers to Business Report'** to inform the policy debate.

This is a fast-moving environment. For instance, since the initial draft of this paper, only a few weeks ago, one of its initial suggestions, the idea of establishing a task force for digital currencies has already happened, and one concern raised, about safeguarding the City's infrastructure has, unfortunately, already materialised with news that the matching centre in Basildon is to be moved to Italy. This reinforces the need for action – both in Westminster as well as in The City **where there is the need for more cheer-leaders to push the case for London.** Realism about the challenges and ambition about the future are needed, helped by confidence in a clear vision and in ensuring that London remains competitive.

Delivering upon a clear strategy will help ensure that financial services contribute towards the UK's future economic success and that the City will continue to thrive as Europe's leading financial centre and one of the world's main financial hubs.

2. Policy recommendations from A to Z

A. **A vision and strategy is needed for the City and it should have two over-riding aims:** a focus on ensuring that the City and the UK financial services sector play a leading role in addressing economic opportunities and helping to deliver strong, sustainable UK economic growth; and also a focus on enhancing the City's competitiveness. These aims should be within the context of ensuring monetary and financial stability. (see section 4)

Policy proposals focused on the City and the economy (B to H):

B. **Address the Macmillan Gap** that was first identified in 1931. There needs to a review into why the funding gap to small and medium-sized enterprises (SMEs) still exists and is so large. In June 2019, the Bank of England acknowledged that this funding gap was £22 billion. (see section 5)
C. **Reassess capital requirements on smaller to mid-tier banks**, linked to the idea of boosting bank lending to the regions, while still maintaining tough regulatory controls to ensure financial stability. (see section 5)
D. **Examine the opportunities to make regional centres outside of London attractive for back-office and other services**. (This could be tied into the idea of free ports and special economic zones, with a focus here on connectivity and financial services). Create Wholesale Fund Hubs aimed at on-shoring jobs in all areas of wholesale financial services such as research, custody and administration. This would also support regional economies and the levelling up agenda. (see section 5)
E. Address financial inclusion. **As part of the levelling up agenda, policy should help facilitate the creation of a private sector-led platform to bring banking services to the unbanked**. The government needs to support the creation of social banks. (see section 5)
F. The UK needs to be mindful of how the world economy is changing through the emergence of the IndoPacific and because of the digital and data revolution. The UK's approach should be based on a radical rejection of the mercantilist reflex of the EU **and**

an appreciation that we should pursue an approach based on open markets and trade as we develop deeper partnerships with a range of important partners. (see section 6)

G. In order to unlock greater access to markets overseas, **the UK should commit to financial dialogues, where it makes sense to do so, with large or growing economies.** An example is the recent UK - Japan Comprehensive Economic Partnership, where there is a commitment to an annual dialogue to explore ways to reduce further regulatory frictions. (see section 6)

H. In addition, to unlock access to international markets, the UK should seek agreement with other countries **focused on an outcomes-based approach, based on either enhanced equivalence or mutual recognition of high-level outcomes.** (see section 6)

Policy proposals focused on the City and enhancing its competitiveness (I to X):

I. **Be pro-active and safeguard the City's inherent characteristics**. The City's success is based on many factors, one of which is its inherent characteristics including the rule of law, time zone and English language, among others. The question for policy makers is which of these inherent characteristics can be seen as controllables, over which policy can exercise an influence, and identify those that are threatened by measures elsewhere. (see section 7)

Policy proposals focused on regulation:

J. **Outline clear regulatory principles**. The UK needs to remain internationally respected in its approach to regulation and adopt high standards. In doing this, it should also focus on keeping down the rising cost of regulation, consistent with the agenda to cut red tape across swathes of the economy. There should be a regular review of regulations, both to retire those that become redundant and to keep pace with changing market practices. (see section 8)

K. **The UK needs to endorse and promote global standards while retaining its own regulatory independence.** The UK should continue to play a leading role at global financial fora in setting regulatory standards. However, even with global standards there can often be some flexibility in which they are implemented. Hence the vital importance of the UK reserving the right to set its own regulatory agenda, within this global context. (See section 8)

L. **The UK should learn from best practice elsewhere, aiming to be at the forefront of modernising regulation,** allowing innovative supervisory technology (SupTech) by financial authorities, such as encompassing big data architecture and supporting advanced analytic applications. (see section 8)

M. There is **the need to embrace competition and the economic**

impact, alongside stability, in the remit of regulators. This recognises there may be some tension between a stable and a competitive financial sector and it does not mean sacrificing either but getting the balance right. The issues that arise from this are the need for Parliament to set the right regulatory framework, for regulators to be incentivised to follow this, and for Parliament to be able to debate, scrutinise and hold regulators to account. (see section 8)

Policy proposals on enhancing competitiveness:

N. **Re-examine both MiFID II and Solvency II**. We should seize the initiative and take advantage of leaving the EU to re-examine existing legislation to ensure it is fit for purpose. This, naturally, cannot happen overnight but two major pieces of legislation warranting immediate attention are MiFID II and re-examining Solvency II requirements for the capitalisation of insurance firms. Embed the aspect of MiFID II focused on the transparency of fees and costs, as such transparency and openness will allow people to see the variation in fees that firms charge. (see section 9)
O. **Re-establish the City's expertise in research**, in order to compete effectively with New York and centres across Asia. This means rolling back those areas of MiFID II that have led to a reduction in expenditure on research. (see section 9)

Policy proposals to address immediate issues with the EU and to position the City to succeed:

P. **The UK should continue to offer the Temporary Permissions Regime, highlighting its commitment to open markets.** The large number of firms from the EEA that had applied for the UK's Temporary Permissions Regime puts the UK in a relatively strong position. In December, 1,476 firms had applied for this. The UK could withdraw this facility, if it wished, but given the focus on open markets that might not be the best, long-term route to take. (see section 11)
Q. **The UK should stand its ground in view of the EU's stance towards it over financial services.** Ensure that the EU does not "force" business that does not need to move to the euro area to do so. Recognise that there is a difference between trying to attract such business, which is legitimate, and the approach being taken by the EU, alluded to by the Governor in his mid-February speech. (see section 12)
R. **The City should be keen about pushing London as an attractive venue for parallel markets in euro-denominated instruments** and thus being a legitimate offshore trading centre of euro-denominated securities. As the EU effectively tries to create a

walled garden around euro-denominated securities this could see London become an attractive venue for 'euro-euro' products. (see section 12)

S. **Legitimise the legitimate, as firms should be encouraged to embrace 'reverse solicitation'**. Firms should not be discouraged from using it, as it is a recognised legitimate way to conduct business, where EU based customers can use UK financial services. (see section 12)

Policy proposals to strengthen the City's infrastructure:

T. **Very importantly, UK policymakers need to assess the resilience of the UK financial eco-system and not take anything for granted**. Thus, there should be a risk assessment of how policy can help. It is important that any issues facing clearing houses are addressed and resolved, as even though they are seen by many as unlikely to move, we should ensure that they remain here. (see section 13)

U. **There is a need to safeguard and strengthen fully the infrastructure needs of the City**. This should include a focus on matching engines, as the recent announcement of the loss of one based in Basildon, should accelerate a policy focus on infrastructure as this is vital to London's success. (see section 14)

V. **London needs to remain at the forefront of being an attractive location for data centres** and thus policy needs to be supportive of enhancing data capacity, including whether the City's competitiveness would be strengthened by the UK hosting a cloud hub, while the importance of data democracy may warrant a greater role for the Information Commissioner's Office. (see section 14)

Policy proposals to position the UK to succeed in growth areas:

W. **Focus on positioning the City to be best placed to succeed in some of the future already identifiable growth areas** including digital currencies, FinTech, Green Finance, Islamic Finance, and electronic and automated trading. The Government should not micro-manage this but provide incentives and support where needed; for instance, this report supports the announcement recently of a digital currency task force and would encourage other measures to boost growth areas, including more green sovereign bonds to help create a bigger pool of green assets. (see section 15)

X. **Support the findings of the Hill Review into Listings** and take into account the consultation feedback to the FCA. (see section 15)

Policy recommendations aimed at enhancing scrutiny and outcomes (Y and Z)

Y. **The structure and remit of Committees in the UK Parliament needs to be amended** to reflect the importance of financial services and the changes that are now merited as we have left the EU. We advocate the creation of a specialised committee of both Houses of Parliament to look at the specifics of financial services legislation. This new committee would need to engage more, on a rule-by-rule basis with the regulators, and not take a hands-off approach. (see section 16)

Z. **We echo the first recommendation of the Hill Review, for the Chancellor to make an annual statement about the City**. A new structure needs to be created around this, to ensure all aspects of the City are represented, perhaps there could be a semi-formal, quarterly meeting to which all the City groups are invited. **This group could produce a regular, 'Barriers to Business Report', to help inform the policy debate.** (see section 17)

3. The Government's financial services timetable

In July 2019, HM Treasury launched the *Financial Services Future Regulatory Framework Review*, to look at the UK's regulatory framework outside the EU. Last year and this, the next phase of that Review is looking at how financial services policy and regulation are made in the UK, including the role of Parliament, HM Treasury and the financial services regulators, and how stakeholders are involved in the process. In addition, in December 2019, it was announced in the Queen's Speech that the Government would bring forward a Financial Services Bill, delivering upon existing government commitments as well as ensuring that the UK maintains its world-leading regulatory standards and remains open to international markets. The Bill, having made its way through the House of Commons, then saw a third reading of the Financial Services Bill in the House of Lords in April 2021.

Last year, during the Transition Period, the Government implemented EU legislation that required transposition before the end of 2020. That included, for instance, the transposition of the Fifth Capital Requirements Directive (CRDV), which updated prudential requirements and clarified some provisions made in CRDIV, and the Bank Recovery and Resolution Directive II (BRRDII). BRRDII updates the 2014 Bank Recovery and Resolution Directive (BRRD) provision, Europe's regulatory response to the 2008 global financial crisis.

Another important development covered the announcements made by the Chancellor on equivalence in November 2020.[1]

Since the beginning of this year, however, the UK has been able to start on its new approach. Already in 2021, we have seen the publication of the Kalifa Review[2], focusing on the regulation of and investment in the UK Financial Technology (FinTech) sector, and Lord Hill's Review of UK Listings[3] that focused on reforming the rules mandating how companies can raise finance on public markets in order to encourage more firms to list and grow here. There are various other reviews, some of which are referenced in this paper. There has also been a bland Memorandum of Understanding with the EU, which created a 'Joint UK-EU Financial Regulatory Forum', and a wider review of capital markets is expected this summer.

1. https://www.gov.uk/government/publications/hm-treasury-equivalence-decisions-for-the-eea-states-9-november-2020/hm-treasury-equivalence-decisions-for-the-eea-states-9-november-2020 and also as stated in https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services *"To provide certainty and reassurance to firms and international partners, the Chancellor today announced the publication of a guidance document setting out the UK's approach to equivalence with overseas jurisdictions – a technical outcomes-based approach that prioritises stability, openness and transparency."*
2. The Kalifa Review of UK FinTech, February 2021, https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech
3. The Hill Review is the name referred to for the UK Listings Review, March 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966133/UK_Listing_Review_3_March.pdf

4. A strategy and vision is needed

The next few years could be a time of significant transformation for the City and UK financial services. The trigger for this is the UK's leaving of the EU and the challenges and opportunities that arise from the new environment.

At the same time, the City must ensure it adapts and changes in the face of significant global economic factors that could transform financial services. These include the digital and data revolution that will include the advancement of financial technology and the changing plate tectonics of the global economy that is a shift in the balance of economic power towards the IndoPacific. These trends will also strengthen financial centres across Asia as well as in New York, which is where London's main future competition lies.

Policy recommendation A of this report is that the Government should outline a strategy for the City and the UK's financial services and it should contain two over-riding aims:

- One, is that the City and financial services should play a full and pro-active role in helping to deliver strong, sustained UK economic growth, including helping support the levelling up agenda and the aim for a net zero carbon economy.
- Two, is to ensure the continued competitiveness of the City of London. This will ensure that London remains the leading financing hub in Europe and one of the world's leading global financial centres. Thus, the immediate focus of policy should be on positioning the City following the UK's exit from the EU, including ensuring its regulatory independence from the EU. A world leading City and UK financial services industry can be supported by a fair and competitive regulatory and taxation framework, attracting people with the highest global skills. Policy should play its role in ensuring that London continues to be an excellent place to both conduct business in and from.

London's success to date, over many decades, has not always been solely a direct consequence of policy measures. Policy has played a part, naturally, but London's success has been a reflection also of the inherent characteristics of a capitalist system that seizes profitable opportunities, encourages competition, incentivises innovation and puts the customer first. The 2008 crisis, however, demonstrated the need to address inherent problems such as the lack of stability in a system that is not regulated smartly. There is also the need to ensure the system is fit for purpose in servicing retail customers, such as in ensuring openness in addressing areas such as exorbitant fees and that regulators respond quickly and efficiently to problems when they are identified. Policymakers can help ensure the future direction of travel to ensure the City's continued competitiveness.

There is little doubt that London will remain Europe's leading financial centre, and by some distance. Yet, the UK must not be complacent and take anything for granted, as it faces an immediate competitive threat, as the EU seeks to undermine the City post Brexit and attract business from London. The post Referendum environment has created uncertainty, and in turn, depending upon a firm's business model, may have triggered changes, the net effect of which has been to boost the relative attraction of some smaller, regional centres across the EU. It is important that the City does not misdiagnose the situation and move activities that it does not need to, to the EU area. In fact, parallel markets are likely to prosper in London.

This report outlines a series of policy measures and the steps that need to be taken to achieve both aims, which are equally important.

5. The role that finance can play in the domestic economy

The continued growth of the financial sector, in its own right, will be an important part of the domestic economic outlook. Finance is one of the most important sectors of the UK economy and the figures on its importance are impressive.

As TheCityUK states[4], it accounts for 1 in 14 workers, or over 2.3 million people, with two out of three employed outside of London. 1.1 million are employed directly, including 388,000 in banking, 311,000 in insurance 61,000 in fund management. In addition, 1.2 million work in related areas, including 510,000 in management consultancy, 440,000 in accountancy and 350,000 in legal services. The impact on regional employment, including cities outside of London, is significant. Further background details on the importance of the City in areas including tax and trade are provided in the appendix.

It is also necessary to investigate what more the financial sector can do, to help the rest of the domestic economy. In essence, how is it best possible to transform the City and financial services into supporting the non-financial economy and boosting growth?

Levelling up is critical. The UK is an imbalanced economy. Like a barbell at a gym where weights are at either end of a bar, the UK has at one end world leading sectors, including the City itself, while at the other end, two out of five work in low skilled, low productive and low wage roles. The debate about levelling up focuses almost exclusively on place, and that is understandable, but it is only part of the overall issue.

An important aim of policy should be to raise the UK's trend rate of sustainable growth[5]. Previously, at Policy Exchange[6], we have called for a market-friendly, pro-growth strategy with three arrows of: credible fiscal activism; monetary and financial stability; and a supply-side agenda focused on investment, innovation, infrastructure and on the right incentives of low tax and sensible regulation. Such policies would boost economic growth and incomes and reduce inequality. The financial sector's role is important and is outlined here.

Close the funding gap facing small firms

One of the most important roles is to help reduce the Macmillan Gap. This is one of the most important issues in the UK economy and has been since being first identified nine decades ago. The Macmillan Gap refers to the shortage of finance provided to small and medium sized

4. https://www.thecityuk.com/research/key-facts-about-uk-based-financial-and-related-professional-services-2021/
5. For a good discussion regarding the economic issues surrounding this topic see pages 73-85 of the Appendices to the Mayor of London's Europe Report, 2014, by Prof Paul Ormerod and Bridget Rosewell https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/europe_report_appendices_2014_08.pdf
6. See the series of Policy Exchange papers produced by the economics team last year.

enterprises (SMEs) by the City[7]. That 1931 report was largely responsible for the formation, in 1945, by The Bank of England of the Industrial and Commercial Finance Corporation to provide long-term finance to small and medium-sized firms. It is has been an ongoing issue since. For instance, the 1980 Wilson Committee's[8] investigation into the functioning of the financial system found no evidence of any shortage of funds based upon prevailing interest rates and levels of demand and upon the prevailing perception of the risks involved. Yet, the problem persists.

There has been progress, and that should be acknowledged. In 2012 Secretary of State Vince Cable launched the British Business Bank,[9] which has played an important role, including providing a wider array of finance options, including innovative investments and start-up-loans.

In its report on the future of finance, referenced below, in June 2019 the Bank of England stated that the funding gap to SMEs was a huge £22 billion. The very fact that such a figure can be stated, without senior people at the Bank or HM Treasury making it a high priority that needs addressing urgently is a worry and perhaps reflects a view that this might be a demand side problem. Many small firms might differ in their view[10].

Reassess capital requirements on smaller to mid-tier banks

Ensuring the stability of the financial system is essential. In the wake of the 2008 global financial crisis, capital requirements on banks[11] were increased, alongside the introduction of the bank levy[12]. Clearly the challenges noted above, in terms of the Macmillan Gap existed well before capital requirements on banks were raised. Nonetheless, there is a case for re-examining capital requirements on UK banks – as well as the bank levy itself, particularly in the case of proposed future changes to corporation tax. Such taxes are an important consideration in terms of the relative competitiveness of the UK banking sector.

While capital requirements should help towards achieving stability, taxes should not impede competitiveness.

This needs to be managed carefully, as capital requirements on the systemically important larger banks should not be lowered at all if we are to heed the lessons of the 2008 crisis. Indeed, as the size of the banking sector rises in relation to the size of the economy in the future, there may be a case for even higher requirements, albeit then as part of a global approach. Instead, now, the case for re-examination is greater for the smaller and mid-tier banks, as part of the steps needed to help free up their ability to lend more in the UK, and to support more entrants.

Currently the Bank of England is conducting a review of the minimum requirement of own funds and eligible liabilities (MREL).[13] Eighteen of the UK banks and building societies, that is one in ten of the total, are required to hold MREL above their minimum prudential requirement.[14] MREL is a minimum requirement for banks to maintain equity and eligible debt so that they can be 'bailed in' in the event of failure. Critical to the

7. See T 200. "*Committee on Finance and Industry (Macmillan Committee): Report of Committee (Cmd. 3897)", 1931 "It has been represented to us that great difficulty is experienced by the smaller and medium sized businesses in raising the capital which they may from time to time require even when the security offered is perfectly sound.*"
8. "*Committee to Review the Functioning of Financial Institutions (Wilson Committee)*" available via National Archives, was established in January 1977 and reported in June 1980. For an excellent comment on the Wilson Committee see Maurice Peston, October 1980, "*The Wilson Report*", The Political Quarterly, https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-923X.1980.tb02526.x There was, subsequently, much debate about the need for long-term financing. See, for instance, the detailed report by Dennis Turner and Charles Williams, Fabian Society No 518, "*An investment bank for the UK*", March 1987, https://digital.library.lse.ac.uk/objects/lse:mar292vig There have been many documents since on a national investment bank but this report by Turner and Williams captures well the issues, and discusses it in the context of that time, linked to deindustrialisation and long-term lending.
9. "*Vince Cable launches British Business Bank strategic plan*", June 2014, https://www.britiash-business-bank.co.uk/vince-cable-launches-british-business-bank-strategic-plan/ "
10. As noted by Justin Protts in "*Closing the Finance Gap*", Civitas, 2018, https://www.civitas.org.uk/content/files/closingthefinancegap.pdf "*Lending to business by banks, as a proportion of UK domestic lending, has declined from 31 per cent in 1988, to eight per cent in 2016. As the proportion of lending to business has decreased, lending to individuals and real estate lending ... have increased.*"
11. https://www.bankofengland.co.uk/news/2020/december/boes-review-of-mrel This Bank of England discussion Paper focuses on the thresholds for resolution strategies, the calibration of the requirements, the eligibility of instruments and the application of MREL within banking groups.
12. UK Government, September 2017, https://www.gov.uk/government/publications/bank-levy-changes-to-scope-and-administration/bank-levy-changes-to-the-scope-and-administration
13. The Bank of England's review of its approach to setting MREL, Discussion Paper, December 2020 https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/boes-review-of-its-approach-to-setting-mrel.pdf
14. This was cited in the speech by Deputy Governor Dave Ramsden in February 2021 https://www.bankofengland.co.uk/speech/2021/february/dave-ramsden-institute-of-chartered-accountants-in-england-wales

resolution regime, the aim is to heed the lessons of 2008 and safeguard the taxpayer with these resources absorbing losses and recapitalising the continuing business. The trouble is, it may be too onerous for all but the largest banks. Also, this needs to be considered alongside the imminent review and possible increased scope of the leverage ratio. The issue is whether the combined MRELs and leverage ratio requirements could place too great a burden on some banks and building societies.[15] Also, the PRA's Consultation Paper on the implementation of the Basel Standards, and the implications of this, are particularly important, including the focus on the Net Stable Funding Ratio (NSFR) and the Liquidity Coverage Ratio (LCR), the liquidity standards introduced in the wake of the 2008 crisis.[16]

The last thing we want is to ease requirements in a way that triggers another financial crisis, but such requirements need to be re-examined alongside Basel risk weightings - with a view to incentivise lending to SMEs, at the expense of incentivising lending to property and buying government bonds.

Banks appear incentivised to lend to t he residential mortgage sector[17] and to buy gilts[18]. Should they be lending more to UK firms is a legitimate question?[19] Encouragingly, in the Kalifa Report it was noted that FinTech has led to small firms having "*digital access to a wider array of lenders*". That aspect of FinTech should help, given the HM Treasury's acknowledgment in 2019 of, "*the informational market failure and a significant barrier to entry for competitors in the SME lending market*."[20] But FinTech cannot solve the underlying problem and, overall, addressing this funding gap issue should be a priority for policy makers.

In addition, it might be appropriate to re-examine not only the bank levy, as noted above, but also the bonus cap, as well as to consider the wider impact of macro-prudential measures, in order to ensure these are working in the way intended.

It should be noted that the HM Treasury, in order to comply with the Financial Services (Banking Reform) Act 2013 has appointed earlier this year a panel to review ring-fencing,[21] which among its terms of reference will examine whether ring fencing may have acted as a barrier to growth for smaller banks.

Overall, there is a need for a resilient and robust banking system. The size of the banking system in relation to the economy, and the size and riskiness of banks' balance sheets ahead of the 2008 crisis reinforces the need for a cautious approach. Yet, there is a need to ensure, too, that banks can best service the domestic economy.

Boost infrastructure

The UK Infrastructure Bank was unveiled in the 2021 Budget. This was welcome. Ensuring that it succeeds in supporting regional and local economic growth should be a feature of policy that Parliament needs to hold the Government to account on. As HM Treasury's policy design paper[22] stated, "*The Bank will have £22 billion of financial capacity to deliver on its objectives, consisting of £12 billion of equity and debt capital and the ability to issue £10*

15. Since this paper was written, and just before going to print, this issue has received wider attention
16. PRA, Consultation Paper, CP5/21, February 2021, https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/february/cp521.pdf?la=en&hash=430FBE3BF2D03AC61F86794BD9F09CDAE031E0E8
17. For a discussion of the credit risk framework see BIS, December 2019, https://www.bis.org/basel_framework/chapter/CRE/30.htm?tldate=20220101
18. "*Most notably, the risk-weighted framework includes a national discretion that allows jurisdictions to apply a 0% risk weight for sovereign exposures denominated and funded in domestic currency*". See BIS, December 2017, "*The regulatory treatment of sovereign exposures*", https://www.bis.org/bcbs/publ/d425.pdf
19. In the 2013 Budget it was announced that the government would "*investigate options for improving access to SME credit data to make it easier for newer lenders to assess applications for loans to smaller businesses*". There was a HMT report the following year, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/323318/PU1681_final.pdf aimed at improving access to SME credit data. Also, in November 2016 the government launched a Bank Referral Scheme, designed to help improve SME access to finance and competition in the SME lending market. The scheme required 9 of the UK's biggest banks to pass on the details of small businesses they have turned down for finance to three Government designated finance platforms: Alternative Business Funding, Funding Options and Funding Xchange. These platforms were, in turn, required to share their details, in anonymous form, with alternative finance providers, helping to facilitate a conversation between the business and any provider who expresses an interest in supplying finance to them. See *Bank Referring Scheme Official Stastistics*, August 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/827792/Bank_Referral_Scheme_Official_Statistics_Publication_-_August_2019__final_.pdf
20. As that HMT document mentioned in the previous footnote stated, the "*Scheme was introduced in response to evidence which shows that SMEs tend to approach their main bank when seeking finance and that, if rejected, many simply give up rather than seek alternative options. As other finance providers with different business models or risk appetites may be more willing to lend to these SMEs, this represents both an informational market failure and a significant barrier to entry for competitors in the SME lending market.*"
21. 2/2/2021https://www.gov.uk/government/publications/members-of-the-ring-fencing-and-proprietary-trading-independent-review-panel-announced-and-terms-of-reference-for-the-review-published/independent-reviews-of-ring-fencing-and-proprietary-trading-terms-of-reference
22. HM Treasury, "*UK Infrastructure Bank: policy design*", March 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966131/UKIB_Policy_Design.pdf

billion of guarantees. It will draw capital from HM Treasury and be able to borrow from private markets."

One of the perennial issues is whether UK pension funds, with long-term term liabilities, should be investing more in longer-term assets such as UK infrastructure. While we would welcome pension funds, and other longer-term investors, to undertake such investment it is a decision that should be left to the pension funds themselves to decide, as their fiduciary responsibility is to their policy holders. There are, however, many reasons to favour the increased issuance of longer dated government debt, as Policy Exchange has outlined before, in order to appeal to the investment profile of longer-term funds.

Grow business in regional financial hubs

The UK should take this opportunity to examine the opportunities for financial services in regional hubs outside of London. In recent decades there has been a focus across the global financial services industry on outsourcing from the UK and other countries to lower cost emerging economies. Additionally, the Covid-19 pandemic has heightened awareness of the ability for certain tasks to take place remotely.

TheCityUK has highlighted the extent to which financial services are a nationwide business, with thriving centres across the UK. Historically, up until early last century, the UK had numerous local stock exchanges[23] based in provincial cities and towns and providing an important source of funding regional companies.

The UK should seek to make regional centres attractive to onshore back-office and other services. This could even be tied into the idea of free ports, with a focus here on connectivity and financial services. The UK could also learn from best practice used by other centres, such as Singapore, Luxembourg and Ireland and create Wholesale Fund Hubs to foster opportunities and jobs in all areas of wholesale financial services such as research, custody and administration.

Financial inclusion should be a win-win for the City and the economy

As part of the levelling up agenda, policy should help facilitate the creation of a private sector-led platform to bring banking services to the unbanked[24].

Financial inclusion and financial literacy go hand-in-hand. Financial inclusion is the ability of people, of all ages, backgrounds and income, to access financial services that they might need. There should be no discrimination or exclusion. It refers to a process by which individuals and businesses can access appropriate, affordable, and timely financial products and services. These include banking, loan, equity, and insurance products. It has become even more important post the pandemic.

Alongside this, improving financial literacy should become a wider aim, helping people make informed decisions about what will be increasingly

23. See "The Rise and Decline of the UK's Provincial Stock Markets, 1869-1929" https://www.econstor.eu/bitstream/10419/141821/1/859906256.pdf

24. A copy of a paper that the author wrote for the Commonwealth Secretariat, and that was delivered to the Commonwealth Finance Ministers Conference, in 2005, on "*Banking the Unbanked*" can be accessed via www.drgerardlyons.com

complicated financial lives.

There is a clear link between financial exclusion and issues such as poverty, inequality, and social exclusion. As such, financial inclusion should not just be about teaching people how to survive, it is also about helping them thrive. In the UK there are considerable numbers of people with very little savings to fall back upon in difficult times. There is significant work to be done and millions of households and personal livelihoods are at risk.

Financial inclusion has been a long-term policy goal of governments around the world, but there has been limited success in meeting it. Multi-decade public sector and industry led initiatives have not always made as much progress, due to a combination of factors, whether they be operational or regulatory hurdles alongside associated costs of delivery. These have made it uneconomic for the financial services sector, which must answer to market realities first and foremost, to support the unbanked and excluded in society.

Most private sector initiatives centre on existing banks, so they are invariably abandoned, or scaled back, when market forces trigger a change of tack. Thus, the government needs to support the creation of social banks that cannot abandon the social mission. This does not necessitate new government money; there are many funds that support social provision and impact. What is needed is to confront the lack of banking provision and target a solution to the problem at its source.

The Government should encourage the private sector to develop a platform designed to allow those currently unbanked or underbanked to gain access to mainstream retail banking services. Within this there also needs to be a greater focus on addressing financial literacy in a meaningful way, improving consumer engagement in long-term savings and in managing debt.

Cut stamp duty and keep taxes low to attract talent to the City

Tax can have a profound impact on incentives and on behaviour and in the context of financial services can play an important role as a policy lever. This was noted above in reference to banks but is also relevant in other areas. The UK, for instance, should be able to resist possible future calls for a financial transactions tax.

In the Hill Review it was stated that, "*A number of respondents noted that the UK is becoming less competitive from a tax perspective relative to global peers*". That certainly appears to be right, and in a competitive global economy, those areas that are more mobile are likely to be more sensitive to high rates of tax, including skilled workers and foreign and portfolio investment. Within the context of a progressive tax system, there is an argument to not raise higher rates of tax too much, and ideally to keep them low, in order to attract talent to the City, and, if successful, it may boost the tax revenue take. While mindful of domestic economic considerations, the UK will need to keep the top rate of tax as low as it can, to ensure London remains an attractive location in which to work.

Also, as my colleague at Policy Exchange, Warwick Lightfoot has advocated, reducing and possibly even abolishing stamp duty on share transactions may help to boost the competitiveness of share transactions in London. The benefits of reducing stamp duty on housing has already become more widely recognised, and the same thinking might be applied to that on share transactions too.

This focus on tax should also be seen in the context where, ahead of the pandemic, London and other major financial centres across the globe, including New York, were seen as becoming very expensive, including the cost of housing. How this plays out post-pandemic will be an important issue, as too will the cost and flexibility of being able to recruit staff in ondon compared with other European cities, such as Paris.

6. The City's role in the global economy

The IndoPacific and the data revolution

The world economy is changing in dramatic ways. The City of London can - and should - be at the centre of that change when it comes to global financial markets. The Covid crisis will trigger profound changes. Some will be predictable, many not, while a great many things will return to normal. The City needs to mindful of the trends that were already evident before the pandemic, as they look set to become more dominant.

Two such trends stand out as powerful economic drivers that will change the outlook and impact the world of finance.

One is that there is a fundamental shift in economic power and wealth underway to the IndoPacific, stretching from India in the west to the USA in the east, spanning a vast array of countries including China, the economic powerhouses of South Korea and Japan, the economies of the Association of South East Asian Nations (ASEAN) and Australia and New Zealand and countries on the Pacific Rim in Latin America. Not all countries in this region will gain at the same time. While this should not frame the overall strategy, it is a development that the City needs to be mindful of, both in terms of opportunities and challenges. This region is likely to account for a growing proportion of the global economy and it is from here that the future competitors, alongside New York now, to the City of London will be seen; Singapore being one such example.

The UK's recent focus on opening-up opportunities in the Pacific trading bloc makes sense in the context of the future growth of this region. The UK should look to deepen economic relationships across the world. It is important to highlight that strengthening ties in this region should be pursued alongside, and not at the expense of, the UK having good relationships with Europe and Africa. London already recognises the importance of remaining Europe's financial capital. It can continue to do that outside the EU. It needs also to offer products that will be attractive globally and seek to break into the IndoPacific market and compete with the emerging centres in that region.

Although the emergence of the IndoPacific may be a dominant trend, the UK's and the City's ambitions should not be confined to this region, as vast as it is and as diverse as the economies within it are. There is also the vast opportunity for London to be positioned well as a location from which to conduct business in Africa, and the Middle East, too, as well as Europe, as outlined below.[25]

Within the context of the IndoPacific will be the future UK-China

25. As Her Majesty said, in the Queen's Speech, May 2021, "My Ministers will deepen trade ties in the Gulf, Africa and the Indo-Pacific." https://www.gov.uk/government/speeches/queens-speech-2021

relationship. In recent years, London as seen as one of its aims to be an offshore centre for the renminbi. Since the UK and China concluded their tenth economic and financial dialogue in June 2019, relations have cooled.[26] I have previously called for a need to differentiate between strategic areas like defence, security and intelligence and non-strategic areas that include trade, economic, banking and financial ties and investment flows.[27]

The other key global economic driver is the ongoing digital and data revolution, that is already having a profound impact on global financial services. The new industrial revolution with a growing emphasis on technology and AI will have a profound impact on the economy, wider society and in financial services. We examine these below, including the need for the City to invest more in its data capacity.

Undisputed gateway to global markets

At his Mansion House speech in 2018[28], Chancellor Hammond stated his **aim for the City to be, "the undisputed gateway to global markets".** In particular, the desire was to develop global financial; partnerships, building upon existing financial dialogues, and aimed at growth markets, with Brazil, China and India being cited at that time. Oher countries have been mentioned since and global opportunities have been identified out by different industry groups.[29] Also there is the scope for the UK to continue to not only work bilaterally with others, but also to force change at a global level. In the recent UK - Japan Comprehensive Economic Partnership, for instance, there was a commitment to an annual dialogue between Japan's Financial Services Authority and UK financial regulators and HM Treasury, to explore ways to reduce further regulatory frictions.

The approach of the EU in recent months may have the unintended consequence of throwing equivalence, at a global level, into question, as they treat the UK differently to other third countries. Open market participation requires clear rules, open access, while allowing for differences in national regulatory practices.

Earlier this year, HM Treasury called for evidence in a number of areas, including overseas person exclusion (OPE),[30] which is generally seen as allowing for easy access to global products and services. Substituted compliance is also an important area, it is the US approach where one can comply with US rules by demonsttracomply with US rules by demonstrating compliance with UK ones; sometimes it is cited as an alternative to enhanced equivalence, for lower level technical outcomes, but is generally viewed as inferior. It reflets strong cross border regulatory cooperation. In April 2021.[31]

In our view, and has been discussed much in the City in recent years, for the UK and EU's future relationship, open access to markets should be based on an outcomes based approach to regulation, and this should be through either enhanced equivalence or mutual recognition of outcomes, thus providing mutual access.

An important aspect of this is that London would be seen as attraction location in which to conduct business in and from.

26. UK China 10th economic and financial dialogue policy outcomes, updated 12/9/2019 https://www.gov.uk/government/publications/uk-china-10th-economic-and-financial-dialogue-policy-outcomes/uk-china-10th-economic-and-financial-dialogue-policy-outcomes
27. "It's time for a fresh UK-China relationship", 14th August 2020, Gerard Lyons, in CityAM https://www.cityam.com/uk-china-relations-must-thaw/
28. See Chancellor's Mansion House speech, 2018, https://www.gov.uk/government/speeches/mansion-house-2018-speech-by-the-chancellor-of-the-exchequer
29. For instance, take the submission by the Investment Committee, who state, "*The key opportunity is for the UK to grow its current £1.7 trillion international business outside the EU. Since total assets under management globally amount to £63 trillion, out of which there is £27 trillion in the five markets identified by HM Government as part of the Global Financial Partnerships (Hong Kong, Japan, Switzerland, Singapore and the USA) the opportunities for growth are theoretically many multiples of the current size of the UK's international asset management industry.*" https://committees.parliament.uk/writtenevidence/23401/pdf
30. See Freshfields Bruckhaus Deringer LLP, December 2020, OPE springs eternal: UK Treasury calls for evidence on how financial services can be provided by overseas persons https://www.lexology.com/library/detail.aspx?g=741317ea-7267-4254-b6e6-dae36baeb5bb "An 'overseas person' is defined as a person who carries on certain regulated activities but who does not do so, or offer to do so, from a permanent place of business maintained by them in the UK. Reliance on the OPE is not linked to the standards of regulation applied in the home state, or any requirement for firms to be registered or report on the business they undertake."
31. *"SEC Issues Notice of Substituted Compliance Application and Proposed Substituted Compliance Order for United Kingdom and Reopens Comment Period for Notice and Proposed Substituted Compliance Order for France"*, US Securities and Exchange Commission, 5/4/2021 https://www.sec.gov/news/press-release/2021-57

7. Enhancing the City's competitiveness

The success of any financial centre depends upon many factors. For London, three stand out:

- its inherent characteristics
- the regulatory environment
- being "the" place where clients and firms want to conduct business, with liquid, deep and broad markets.

For London, all three have been key drivers in its success. **An important issue for policy should be, what needs to be done to ensure that this remains the case in the future.** In terms of immediate policy levers that can be pulled, it is essential that the UK maintains an appropriate regulatory and tax regime that does not create a drag on the sector.

In the latest and widely followed Z/Yen half-yearly ranking of global financial centres[32], London ranked second to New York. Shanghai, Hong Kong and Singapore filled the other positions in the top five. London and New York have tended to compete for the top position, with the centres in Asia increasingly competitive.[33]

Inherent characteristics

Many of the City of London's inherent characteristics are deeply embedded and strong. These include, among others: the importance of contracts; time zone; the English language; the independence of institutions; and the importance of English common law across the globe and in many financial centres.

To this list – before the pandemic, at least – could be added the London vibe, and that it had earned the reputation as an attractive place to live, work, visit and to do business in. The ability of London to recover its vibrancy post the pandemic will be important for the City, in terms of encouraging people to want to locate there.

There has been much debate about how the pandemic will impact the future of work, but it would seem unlikely that this would have a material impact on London's position. There is, however, one area where some future issues may arise and that is the impact of Artificial Intelligence. There is awareness that this will impact the future of work, too, but it is also necessary to ask how it might influence the impact of time zone and language on business location. Such perceived risks for London should not

32. Z/Yen "*Global Financial Centres Index 29*", March 2021 https://www.zyen.com/media/documents/Global_Financial_Centres_Index_29_Launch_Presentation_2021.03.17_v0.1_zpHT2Os.pdf
33. See also Gerard Lyons, in the *Times*, 23/7/2019, writing about the results of a detailed study he conducted for Netwealth on global financial centres, "*Can London and New York stay on top as the world's financial capitals?*" https://www.thetimes.co.uk/article/can-london-and-new-york-stay-on-top-as-the-world-s-financial-capitals-c8cx-c5hzp

be overstated and need not become actual risks, provided one prepares for them.

If one was pessimistic about Brexit, these inherent characteristics of the City, particularly the rule of law, might be termed Brexit proof. In contrast, if like me, one was positive about the opportunities afforded by Brexit, then these inherent characteristics can be regarded as providing a strong foundation on which to build.

These foundations are linked also to the regulatory environment that has helped create a dynamic eco-system in London and the City**.** One focus for policy makers is what, within these inherent characteristics, can be seen as "controllables" over which policy can exercise an influence as opposed to those that are threatened by measures elsewhere or by the direction of travel at home?

English common law underpins London's success

A central aspect of the attraction of London as a global financial centre is English common law. In this area, the importance of being outside the EU is important. A famous quote of Lord Denning, then Master of the Rolls, was made in the 1974 Bulmer versus Bollinger case, when he said, "*the treaty is like an incoming tide. It flows into the estuaries and up the rivers. It cannot be held back.*" He reinforced this idea in 1978, "*the flowing tide of Community law is coming in fast. It has not stopped at high water-mark. It has broken the dykes and the banks. It has submerged the surrounding land. So much so that we must learn to become amphibious if we are to keep our heads above water.*" Again, the following year, "*Now in 1979 the tide is advancing. It is no use our trying to stop it, any more than King Canute did. He got his feet wet; I expect we shall all get our feet wet too.*"[34] The extent of the influence from the EU has been considerable. The current position is that the UK has accepted the legacy of a vast swathe of EU law.

Thus, the need to differentiate between English Common Law and the Continental approach is highlighted by Barney Reynolds[35], writing before the UK had left the EU, "*As the only member state with a global finance centre, and the EU's most prominent common law system, the UK suffered disproportionately from the incompatibility of the EU's civil law based approach. The UK often found its attempts to advance its agenda as a financial services hub thwarted by politics, rather than economic or legal good sense. Its competitiveness has been damaged by laws to which it would never have been subject had it not been in the EU and under the EU's imperfect legal architecture. The effectiveness of the UK's financial services regime has, as a result, been undermined.*

"*An obvious question that arises is which system is better? At least in financial services, the answer is settled. Common law-based financial centres have clearly come out on top, providing the preferred legal environment for international financial markets and best facilitates the constant innovation and development which financial products and services require.*"[36]

An indication of the EU's un-cooperative and aggressive stance to the UK has been reflected recently by the Commission's recommendation that the UK should not be allowed to be a member of the Lugano Convention.[37] This Convention is a collective arrangement concerning enforcement of cross-border civil and commercial disputes.

It is up to the EU 27 to decide membership; Norway, Iceland and

34. See, Lord Denning and EEC Law, by A.I.L. Campbell, in the Denning Law Journal pp 1-25, file:///C:/Users/GerryLyons/Downloads/167-Article%20Text-554-1-10-20121030.pdf
35. See Politeia, released 8/2/2021, "Restoring UK Law: Freeing the UK's Global Financial Market", by Barnabas Reynolds, https://www.politeia.co.uk/wp-content/Politeia%20Documents/2021/FEB%20-%20Barney%20Reynolds/Restoring%20UK%20Law_%20Freeing%20the%20UK%27s%20Global%20Financial%20Market%281011956366.65.docx%29%20MASTER.pdf?_t=1612457531&mc_cid=c5cac04c93&mc_eid=UNIQID
36. See NBER, "The Strongest Capital Markets are in Common Law Countries", Issue No 6, July 1997, https://www.nber.org/digest/jun97/strongest-capital-markets-are-common-law-countries
37. See Huw Jones, Reuters, 4 May 2021 "EU executive seeks bar on Britain from cross-border disputes accord" https://www.reuters.com/article/us-britain-eu-court-idAFKBN2CL1JJ

Switzerland are also members.

The UK applied to join as it would have replaced the Brussels (Recast) Regulation that the UK left at the start of the year.[38] This is unlikely to be a major setback. The default is, as noted by the UK Government web site, that, "The 2005 Hague Convention on Choice of Court Agreements still applies to the UK (without interruption) from its original entry into force date of 1 October 2015."[39] Although it is slightly narrower in scope than the Lugano Convention[40], there is also a much broader 2019 Hague Convention, although that will likely take some time to be ratified.

Of course, international business views English Common Law as the gold standard for cross border transactions. The importance of the legal system is paramount to the City's future success. It is not as if this is not appreciated but it is a factor that policymakers and politicians should continue to take note of and advance.

38. As Simmons-Simmons pointed out in a note on this, 13 April 2021, https://www.simmons-simmons.com/en/publications/ckjiu3slp25vs0954hjss8ojh/cross-border-disputes-no-lugano-convention-so-what-next- "The UK applied to join the Lugano Convention in April 2020. The Lugano Convention would have offered a substantially similar framework to the Brussels (Recast) Regulation, which ceased to apply in the UK on 1 January 2021. Brussels (Recast) ensures parties' contractual choice of jurisdiction is enforced and that judgments from the courts of member states are recognisable and enforceable across the EU."
39. See Gov.UK 31/12/2020 https://www.gov.uk/government/publications/cross-border-civil-and-commercial-legal-cases-guidance-for-legal-professionals/cross-border-civil-and-commercial-legal-cases-guidance-for-legal-professionals
40. "In broad terms, the 2005 Hague Convention requires that the courts of contracting states give effect to exclusive jurisdiction clauses in favour of the courts of other contracting states." See the note by Travers and Smith, https://www.traverssmith.com/knowledge/knowledge-container/jurisdiction-and-judgments-where-are-we-now/

8. The eight over-riding aims to adopt in our future regulatory approach

For a 21st century leading financial centre there should a series of over-riding themes.

Eight important ones are outlined here, each important in their own right:

- the UK needs to outline clear regulatory principles that help underpin its competitiveness.
- the UK should continue to play an important role in setting regulatory standards at a global level and aim for the highest principles.
- the UK should not be a rule-taker and should set its own approach – within the framework of the highest international standards that it has helped set.
- the focus should not be on gold-plating or a race to the bottom but on smart regulation that makes sense in the area to which it applies.
- it is not regulation for regulation's sake that we are after, but a stepping-stone to a stronger economy, stable financial system and a competitive City and thus, in future, regulatory success should be measured against the impact on the economy and on London's competitiveness, as well as achieving financial stability.
- we should aim to keep the cost of regulation down.
- we should help take regulation to the next level, with regulatory technology (RegTech) and SupTech moving us towards real time regulation as the standard.
- the importance of Parliamentary scrutiny and the right regulatory perimeter.

(i) Commit to the highest principles of financial regulation

At the centre of the future debate is the UK's future regulatory framework**. This has the ability to change profoundly now that the UK has left the EU,** where much of this, according to the Economic Secretary[41], has,

41. See Financial Services Future Regulatory Framework, October 2020 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927316/141020_Final_Phase_II_Condoc_For_Publication_for_print.pdf

"been prescribed by EU legislation." At the core of the approach is the Financial Services and Markets Act 2000 (FSMA), with the policy framework set by Parliament and executed by the domestic regulatory authorities.

The UK wants to remain, as now, internationally respected in its approach to regulation and remain as a thought leader. But at the same time, it needs to adapt its regulatory framework outside the EU. The initial starting point is that, *"The EU approach to regulation is preserved in the 'onshoring' of EU legislation. The vast bulk of EU directly applicable legislation for financial services will now sit on the UK statute book, with amendments made to ensure this legislation works effectively in a UK standalone regime."*

A ministerial statement by the Chancellor last June[42] outlined clearly the UK's principles. He stated, *"The UK has always championed and remains committed to the highest international standards of financial regulation. The future success of the UK financial sector will be underpinned by a world-class environment for doing business. In turn, our future legislation will be guided by what is right for the UK, to support economic prosperity across the country, to ensure financial stability, market integrity and consumer protection, and to continue to ensure the UK remains a world leading financial centre."* This approach makes sense.

As part of this, there should be a regular review of regulations, both to retire those that become redundant and to keep pace with changing market practices.

(ii) Continue to endorse and promote global standards

As the Chancellor has made clear, the UK should aim for the highest international standards. It should also help to endorse and promote these standards too.

The UK should ensure that it continues to play a leading role on global bodies that influence the direction of travel of many standards that impact the financial sector. Since the 2008 crisis the most important global bodies with respect to the financial sector have been the G20, the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision. In particular, as a result of the 2008 crisis the FSB was empowered to promote global financial stability, underpinned by sound regulation and supervision.

The UK plays an important role in its own right at the FSB and also on the four global standard setting bodies: the Basel Committee for banks, the International Organisation of Securities Commissions (IOSCO) for markets, the Committee on Payments and Market Infrastructures (CPMI) for payments and settlements and the International Association of Insurance Supervisors (AISI). As the Governor noted in a recent speech[43], the CPMI and AISI are chaired currently by Bank of England officials; indeed, the previous Governor chaired the FSB.

Such institutions play an important role as part of the infrastructure of financial markets. The open financial system that they help underpin could, in theory, be challenged if developments in the digital space allowed the growth of a one world, two systems approach, with the two systems being those led by China versus the west. This seems unlikely, at

42. See Financial Services Update: Statement made on 23rd June, 2020 by the Chancellor, UIN HCWS309

43. The case for an open financial system - speech by Andrew Bailey | Bank of England, February 2021

the moment, but nonetheless reinforces the importance of the UK being at the forefront in multiple areas: such as standards now, and in the digital space in the future.

Maintaining global standards is important and goes without saying. As noted, we should expect the UK to continue playing a leading role in setting global financial standards, embracing fair and competitive financial markets. The ability for the UK to be at the forefront of global developments, given the City's scale, needs to be appreciated. Moreover, in the wake of the 2008 financial crisis, particularly in view of the scale of the contagion, the benefits of a global approach to financial crisis was demonstrated. With the scale of the UK financial sector set to grow, relative to GDP, the lessons of 2008 should tell us that there are risks to the so-called race to the bottom that is sometimes talked about.[44].

The UK regulatory regime must consider the UK's standing in relation to other countries, given the need to work together in some areas that are cross-border and also as regulation can become a competitive advantage.

(iii) At the same time the UK should decide upon its own supervisory approach

One issue that makes sense but can perhaps be confusing is the idea that the UK needs to endorse and promote global standards while also retaining its own regulatory independence.

Even with global standards there can often be some flexibility in which they are implemented – the contrast between the EU and UK's approach is a clear example. The EU has been described as trying to control the market, while the UK values the market. Hence the vital importance of the UK reserving the right to set its own regulatory agenda, within this global context.

Given the EU's approach, it is now clear that equivalence with the EU should not be seen as the main goal of policy; it is a nice to have, not a must have.

The most important issue is for the UK not to have its hands tied by being a rule-taker, particularly to EU rules set to suit a wide array of countries, none of whom possess a global financial centre to match the scale of London and thus for the UK to decide upon its own supervisory approach based upon its regulatory principles.

(iv) Have less regulation but the focus is on smart regulation, not gold-plating or a race to the bottom

The highest regulatory standards should also be reinforced in their application by **the UK aiming for smart regulation**. Clearly no one wants stupid regulation, but the use of the word smart here is to refer to regulation in qualitative as opposed to quantitative terms. Some areas will require more regulation than others, but at the same time we should avoid retaining or introducing regulation just for the sake of it; there needs to

44. See 3rd August 2017, Larry Elliott and Jill Treanor, reporting on an interview that Governor Mark Carney gave to *The Guardian* https://www.theguardian.com/business/2017/aug/03/britains-finance-sector-will-double-in-size-in-25-years-says-mark-carney

be a purpose. While the UK's bias should be to lower and not to increase regulation – and thus to have less regulation - smart regulation means that the picture may vary from area to area. One size will not fit all parts of the financial industry.

The UK should, however, **avoid gold-plating global regulations**. Gold-plating was the term referring to a country adding an extra degree of complexity – or even zealousness – to an EU directive.

At the same time, **the UK should avoid a race to the bottom**, where it deregulates across a swathe of financial areas just for the sake of it.

The City United Project (CUP)[45], in their submission to the government's deregulation agenda, made the important point about getting the balance right on regulation between "cost and risk". As it stated, "*Within the EU, the UK was constantly in danger of implementing overprescriptive regulation… and the increasing distance between and lack of awareness of UK regulators of the markets they were regulating. An acceptable degree of risk and outcomes related approach to regulation allows for considerable flexibility in levels of prescription.*"

As we saw from the 2008 crisis, deregulation across the banking sector can bring risks, particularly for London where the scale of this sector in relation to GDP is very high. Thus, the regulatory environment there may need to be tougher than in other areas of the financial industry but not so burdensome that it inhibits the necessary ability of banks to lend to UK based firms, as noted above. In contrast to the banking sector, there are large parts of the financial industry where it may prove sensible for the UK to deregulate, and it will be necessary to determine where these areas exist.

(v) Regulatory success must give weight to competition and the economy as well as to stability

In the wake of the 2008 crisis there was a significant shift in regulation. Ahead of that crisis, the regulatory pendulum was at one extreme, too light. Now the regulatory pendulum may have swung to the other extreme, too intrusive and costly, and like any pendulum it needs to settle somewhere in the middle. Settling in the middle means supporting economic growth, enhancing the City's competitiveness while ensuring financial stability.

It should go without saying that regulation is pursued not just for regulation's but to achieve a final objective. The terms of reference for regulators should be widened, with regulatory success measured against the impact on the economy and on London's competitiveness, as well as achieving financial stability.

(vi) Keep the overall cost of regulation down

Financial services should recognise the need to keep down the rising cost of regulation, both to save people money and also to improve the attraction and competitiveness of UK financial services. In 2017, Dr Rotherham[46] summarised the approach succinctly, albeit though he was referring to a

45. See https://www.cityunitedproject.com/
46. See Dr Rotherham, Red Cell, 2017, "Britain's red-tape challenge", http://www.theredcell.co.uk/uploads/9/6/4/0/96409902/bArex-its_red_tape_challenge.pdf

pan economy post-Brexit review of red tape, stating, "*The default attack on red tape should be maximalist: to remove regulation, except where it is required to secure trade; to strip, unless it is democratically desired; to lighten all that remains, according to a strict interpretation of clear objectives.*"

Keeping costs down for the general public is essential and ties in with the points made below about the need to retain transparency of fees following any review of MiFID II. There have also been various consultations from the FCA on fees and levies.[47]

A pragmatic approach is being adopted in areas such as Securities Financing Transactions Regime (SFTR) and this approach can be replicated in other areas. This was a complex piece of regulation, that was brought in across the EU and UK as recently as July 2020. Although complex, its implementation was smooth. Upon leaving the EU, the UK regulators have taken two steps, both of which seem sensible: one, is to not bring non-financial firms under the scope of the SFTR, which is what would have happened had we remained in the EU, where it came into wider effect at the start of this year. Where non-financial firms are concerned, financial counterparties will still report, while non-financial to non-financial transactions are low in number; two, as the new rules have been implemented after considerable cost, the current policy seems to be that it is, "*prudent to allow the regime to mature before we consider if there is a case for refinement or trimming. We seek a balance in which the regime meets its overall objectives while remaining proportionate in terms of cost and operational burdens for UK-based firms.*"

It is not only the cost of regulation but where the levies fall, too. For instance, the investment management industry foots a large part of the cost of the financial services compensation scheme levy. So, it is not just about keeping the cost down, but determining fairly where that cost falls.

A two-speed regulatory system was proposed also by the CUP, refenced above. It is an interesting idea, as an over prescriptive regulatory system can trigger an unacceptable cost burden for smaller firms, and even result in barriers to entry, deterring new entrants. Avoiding a one-size fits all approach may reduce costs as well as improve effectiveness.

(vii) Be at the forefront of regulatory modernisation too

Just as the infrastructure surrounding the City and financial markets is witnessing massive investment the regulatory and financial architecture is modernising rapidly too.

The Bank of England's 2019 Future of Finance Report[48] contained an interesting case study on lessons to learn from the Monetary Authority of Singapore's (MAS) new strategy in 2017 for modernising regulation that had four components: regulation fit for the FinTech age; data sharing; international collaboration; and "using enhanced analytics". The later included a SupTech office.

SupTech allows innovative supervisory technology by financial authorities, such as encompassing big data architecture and supporting advanced analytic applications. RegTech, in contrast, is regulatory technology and enables compliance processes to improve. Both SupTech

47. CP21/8: FCA regulated fees and levies: Rates Proposals 2021/22 https://www.fca.org.uk/publications/consultation-papers/cp21-8-fca-regulated-fees-levies-rates-proposals-2021-22
48. https://www.bankofengland.co.uk/report/2019/future-of-finance

and RegTech have received much attention in the City in recent years and are important components for the UK's future space.

The MAS's approach allows data analysis on supervisory and financial service data, including use of machine learning techniques, "*such as natural language processing (NLP) to analyse structured and unstructured data that helps regulators review suspicious transaction reports. It also includes studying trading behaviour through machine learning.*"

In April, a report commissioned by the City of London[49] highlighted the potential cost savings of adopting RegTech, while also drawing attention to the scale of the RegTech sector in the UK. It statied, "There are currently 230 RegTech companies head-quartered in the UK" plus many overseas firms with offices here, and in total it accounts for 2.3% of all jobs in the UK tech sector." The main aim of the report, though, was to push, "**policymakers to embrace RegTech to boost UK competitiveness and economic growth post-pandemic."** Their response, at the launch of the report, was that it was not for them to do so.[50]

Facing a digital and data revolution it is worth noting that there may be important lessons from the Bank of England project on data collection in the financial sector.[51]

The City needs to be at the forefront of this, as the next step would be real-time regulation, supplementing real time risk management across the industry. It is not clear that there is a first mover advantage, as regulatory best practice is often copied, or rolled out across the globe. However, the UK's expertise in many areas, including digital technology, should allow it to take a lead and help set standards.

(viii) The importance of Parliamentary scrutiny and the right regulatory perimeter

As in economics, when it comes to regulation, it is important to avoid group think and prevent regulatory capture, where regulators speak to one another at international conferences and then drive the agenda. **The issues that arise from this are: the need for Parliament to set the right regulatory framework; for regulators to be incentivised to follow this; and for Parliament to be able to debate, scrutinise and hold regulators to account.**

Within this, where should the regulatory perimeter be is an important issue. It is also a global not just a national issue. Globally, for instance, the shadow banking industry has been an ongoing concern. As the FSB noted[52], "*The NBFI sector – comprising mainly pension funds, insurance corporations and other financial intermediaries (OFIs)*[1] *– has grown faster than the banking sector over the past decade... The financial assets of the NBFI sector amounted to $200.2 trillion in 2019, accounting for nearly half of the global financial system in 2019, up from 42% in 2008.*"

Within the EU, the scale of regulation and the nature of the decision-

49. https://www.rtassociates.co/2021/04/uk-regtech-report-2021/
50. Reuters, April, "Bank of England tells firms to promote own RegTech products" https://www.reuters.com/business/finance/city-london-calls-paradigm-shift-tech-banks-2021-04-15/
51. "Transforming data collection from the UK financial sector" https://www.bankofengland.co.uk/paper/2020/transforming-data-collection-from-the-uk-financial-sector
52. FSB, 2020, "Global monitoring report on non-bank financial intermediation", https://www.fsb.org/wp-content/uploads/P161220.pdf

making process meant, it seems, that it was difficult to reverse regulation. Yet, in a fast-changing global financial sector that is very much what one needs to be able to do: this is particularly so in a digital landscape where new entrants can emerge.

The key issue, also, is to ensure that it is activities that are regulated, not firms. Alongside this, the UK also needs to learn the lessons of the plethora of various reports outlining the need for robust authorisation and better supervision process and learning the lessons from previous scandals. As an example of both of these points, in terms of domestic UK regulation and the FCA, the Gloster Report, stated, "*LCF had a badge of respectability deriving from its authorised status, including in respect of its unregulated bond business.*"[53]

In February, following the release of their report into this area, Bim Afolami, MP, Chair of the APPG for Financial Markets and Services summarised it well[54], "*Now regulatory powers have been returned from Brussels, we must make sure the rules that govern the sector are best suited to our own domestic objectives through an effective accountability mechanism, alongside necessary checks and balances.*"

There is a need for a fundamental re-assessment of the regulatory framework including who sets it in the UK and with that has to be a focus on the need for different – and greater – parliamentary scrutiny. Much thought needs to be given to this, and thus there needs to be the scope to revisit this regularly as it evolves.

53. See 3.20 of the Gloster_Report_FINAL.pdf (publishing.service.gov.uk)"

54. "APPG calls for greater Parliamentary oversight of financial services regulation", 17/2/2021 John Ludlow, https://apgfms.org.uk/2021/02/17/appg-calls-for-greater-parliamentary-oversight-of-financial-services-regulation/

9. MiFID II and Solvency II warrant immediate attention

Rules that may have been designed as a compromise for all EU countries cannot be expected – in all areas – to be still be appropriate for London's large and complex international financial sector.

We should seize the initiative and take advantage of leaving the EU to re-examine existing legislation to ensure it is fit for purpose. This, naturally, cannot happen overnight. **But two major pieces of legislation warrant immediate attention: these are MiFID II and re-examining Solvency II requirements for the capitalisation of insurance firms.** The removal of bonus caps also warrants attention, as the unintended consequence of such action is to raise pay and fixed costs.

Re-examine MiFID II

MiFID II is the Markets in Financial Instruments Directive II, introduced in 2018 by the EU, but years in the making. MiFID I had been introduced in 2008. As the UK played an important role in its drafting this is sometimes cited as a factor in MiFID II's defence, but as with all EU legislation there is an element of lowest common factor, to appeal to then EU 28.

Because it has been costly to implement and because there is a fear that changing it may send the wrong signals about the UK's regulatory plans, one option is to leave it unchanged. That might be a mistake**. At the very least it should be part of a review of the regulatory architecture in the UK.** Safeguarding the consumer is critical, helped by openness and transparency, such as on fees. There may be a case for embedding the retail aspects of MiFID II for the domestic market. But many in the City appear keen to remove much of the legislation for the wholesale sector.

Also, it is worth noting whether there have been unintended consequences, one of which has been the policy of unbundling research costs. Initially seen as a positive, in recent years there has been **concern about the extent to which MiFID II has undermined the City's research base.**

While reform of MiFID II is a very complex area, the issue of research, while perhaps not a major one in terms of MiFID II, is nonetheless an important one for the City.

Reforming MiFID II might be the trigger to resurrect this. It led many UK asset managers to fund what would have been once seen as necessary and critical external research from their profit and loss accounts. **Research spending has been cut about 70% compared with before** MiFID II and the reductions versus the US have been noticeable[55]; the worry is that this may have harmed both returns and the competitive position of UK managers globally. It has even been suggested that it may raise questions about the UK's ability to meet its long-term environment ambitions, given the importance of research for driving investment decisions in this area[56].

This leads directly onto an important issue: the importance of the City's research base, including independent research[57]. The Hill Review (in its section 7.3) noted the importance of this issue, in terms of SME research provision, but outlining how to address this issue was beyond the scope of that Review. A vibrant independent research base in the City is important for listings. Research was once a mainstay of the City, particularly after Big Bang in 1986. While MiFID II appears to have contributed to this change, it is important to ensure that it is not the only factor that has.

Not all aspects of MiFID II need to be ditched. Naturally, there are positives, such as its standardisation of regulatory disclosure, the focus on transparency particularly about fee and commission and improved data quality. For instance, **there are strong reasons to embed that component focused on the transparency of fees and costs,** as such transparency and openness will allow people to see the variation in fees that firms charge. However, MiFID II's scale is huge[58] and not all may be applicable now.

Review Solvency II

Solvency II came into effect at the start of 2016. It codified and harmonised EU insurance legislation, The Government has already made clear it will bring forward a review of aspects of Solvency II to ensure it best fits the UK insurance sector. As the Chancellor outlined last June in his ministerial statement, this review, "*will include, but are not limited to, the risk margin, the matching adjustment, the operation of internal models and reporting requirements for insurers*".

A stable insurance sector has a critical role in the City. It is not only its size and potential future growth markets globally but it also matters for the protection of policyholders across the UK and also its impact on the stability of the wider financial system. Moreover, the UK insurance sector is a competitive edge for London. Ahead of our exit from the EU, it was the largest in Europe as measured by total premiums, and UK insurers managed investments close to £2 trillion, as well as contributing £35 billion each year to the economy.

Paragraphs 60 to 90 of the Treasury Select Committee report[59] on Solvency II merit attention, as these discuss possible improvements, as there were several areas in which Solvency II was seen as impacting. Indeed, (paragraph 65), "Concern was expressed that the legislation is "hampering firms' ability to innovate and provide customers with a broad range of products" while higher capital requirements are "driving some areas of activity off-shore (outside the EU)". This competition issue is a concern that needs to be addressed, both in terms of the UK economy[60], and also given the global nature of the industry market and the need for London to compete versus North America. Indeed, in his Lloyd's 2013 City Dinner, John Nelson, the Chairman of Lloyd's at the time, then focused on

55. https://b0bb1e66-51c9-4555-9ca6-485a1ad3ff51.filesusr.com/ugd/610488_a70924ad301046df9b977d5c125c679a.pdf See Evercore ISI, May 2020, "*Another Year of Unintended Consequences: While 2020 Has Brought New Challenges, 2019 was Another Year of P&L Payer Underperformance & Unintended MiFID II Consequences*" … "*One of the key findings of academic work Frost Consulting has done with Stanford University is that the cost of research is completely dwarfed by the performance differentials between funds that do well and funds that do poorly.*"
56. See the CUP proposal, cited earlier.
57. CSFI, "Has independent research come of age", June 2011, https://static1.squarespace.com/static/54d620fce4b049bf4cd5be9b/t/55240ddbe4b0b2e8780de331/1428426203400/Has+Independent+Research+Come+of+Age.pdf
58. It has 1.4 million paragraphs. See MiFID II goes too far and is too costly to implement - FTAdviser.com
59. On 14 December 2017 the Treasury Select Committee published "*The Solvency II Directive and its impact on the UK Insurance Industry*" (HC 324). Paragraphs 60 to 90 are in section 3: Solvency II and the way it has been implemented in the UK and can be accessed here https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/324/32406.htm#_idTextAnchor028
60. The Bank of England's response was received on 20 February 2018 and can be accessed here https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/863/86303.htm As the PRA noted, in that response, "*Parliament has given the PRA two primary objectives: a general objective relating to the safety and soundness of firms, and an objective specific to insurers, to contribute to securing an appropriate degree of protection for policyholders. Since 2014, the PRA has also had a secondary competition objective (SCO) to facilitate effective competition in financial services markets, including the insurance marke. The SCO has a strong, practical influence on our policy and supervisory approach for insurance. We have taken a number of steps to achieve a better fit between regulation and firms' particular business models, fostering a UK market which comprises a very wide range of businesses, by size and line of business. Moreover, prudential regulation underpins the principle of effective competition in supporting the resilience of the insurance sector. This in turn drives innovation and ultimately the productivity and competitiveness of the sector.*" These will remain important features to focus upon.

the huge global opportunities, stating, "No major economy has ever been able to prosper, on a long-term basis, without proper risk transfer. That means we have extraordinary opportunities for growth in the emerging economies, which are starting to use formal risk-transfer mechanisms."[61]

This report supports the Government's imminent review and focus, it being clear that the aim is not to reject all aspects of Solvency II but given its huge cost of implementation and the way it has been embedded to improve it and ensure it does not hinder competitiveness and is fit for purpose.[62] UK insurers were seen as being well positioned for the switch to Solvency II, with a strong overlap to the principles underpinning the proceeding UK Individual Capital Adequacy Standards (ICAS) regime. The success of the industry since then, should not however, be taken as an endorsement of all aspects of Solvency II.

61. He mentioned as an example of the future opportunity that in a major earthquake in China earlier that year less than one per cent of the damage caused was in fact insured. Quoted on page 90 of *The Consolations of Economics* (2014)

62. A European view of Solvency 2 is captured here https://www.eiopa.europa.eu/content/opinion-2020-review-of-solvency-ii_en from the EU's European Insurance and Occupational Pensions Authority who even though they felt it worked well acknowledged that it needed to focus additionally on: a balanced updating of the regulatory framework; a recognition of the economic situation; and completion of the regulatory toolkit.

10. People and talent

Ahead of the 2016 Referendum, three areas were widely identified as being of importance if the UK chose to leave. These were: clearing, passporting and the ability to recruit EU staff to work in the City. The policy environment needs to be mindful of each.

Attracting talent is a perennial issue and should be factored into policy thinking. A full focus on this important area, particularly in the light of the pandemic, and the future of work[63], is outside the remit of this Report, as it can cover a vast array of areas, some of which are now being addressed including more apprenticeships and greater access to roles in the City.

Access to talent and to people from across the globe remains an important demand from firms within the City. There is every reason to believe that this is in line with the Government's approach to future immigration[64]. At the time of the 2011 Census, 28% of workers in the financial and insurance sector were born outside the UK. Skills gaps can only be filled by the UK remaining open to attracting international talent, as well as increased skills training within the UK.

63. See '*The Future of Work*', a report by Gerard Lyons and Patrick Spencer for the Centre for Social Justice, June 2018 https://www.centreforsocialjustice.org.uk/wp-content/uploads/2018/06/CSJJ6291-Future-of-Work-WEB-180604.pdf

64. At the time of the 2011 Census, 28% of workers in the financial and insurance sector were foreign born workers. See 2016 GLA, "*London: The Global Powerhouse*". Also, about one in eight workers in the City were EEA workers from outside the UK, See 2014 GLA, "*The Europe Report: a Win-Win Situation*"

11. Passporting

London was already Europe's leading financial centre prior to the introduction of passporting. That being said, business models reflect the environment in which they are operating and while we were in the EU firms adjusted to passporting, with many firms servicing EU based clients directly out of London. Thus, the removal of the passporting regime has an impact, dependent upon the business model of the firm involved. That has already been evident, with some firms having to move staff to the euro area.

Upon leaving the EU, the UK lost its passporting rights[65] that allowed UK based firms to be able to act on behalf of clients across the EU, either cross-border or through a branch presence. It is within the remit of the EU to offer the UK passporting rights, with three options possible.

- One, the UK retains its passporting privileges, meaning firms operating their business from the UK can continue to do so without the need to establish entities within the EU; but this would involve applying all relevant EU law, which the Bank of England and HM Treasury have ruled out.
- Two, the UK loses its passporting rights but is granted third country equivalence, allowing non-EU based firms to offer certain services into the EU if their home country legal and regulatory regime is accepted by the EU as being 'equivalent' to EU standards. This would mean that some investment firms and trading venues may still be able to operate outside of the EU without the need to establish a presence in the EU.
- Three, the UK loses passporting rights and is not granted equivalence in which case UK based entities would need to establish a licensed business presence within the EU for certain business[66].

The two types of passports that UK firms most heavily relied on enabled the provision of insurance mediation services and the rights for investment firms to provide cross border investment.[67] Of course, the issue of passporting post Brexit is two way,[68] although the scale of the activities by those passporting from the UK was across multiple areas.

In anticipation of the loss of passporting rights at the end of 2020, the UK established a temporary permission regime (TPR) to allow EEA firms to continue to operate on the ground in the UK for a temporary period, within the scope of operations permitted under their previous passport.[69] Furthermore, the UK's perimeter is highly open as a result of its "overseas

65. 'What is 'passporting' and why does it matter?' *BBA* (accessed February 2021) https://www.bba.org.uk/wp-content/uploads/2016/12/webversion-BQB-3-1.pdf
66. See Politeia, released 3/11/2016, "A Blueprint for Brexit: The Future of Global Financial Services and Markets in the UK", by Barnabas Reynolds, https://www.politeia.co.uk/wp-content/Politeia%20Documents/2016/Nov%20-%20A%20Blueprint%20for%20Brexit/'A%20Blueprint%20for%20Brexit'%20Nov%202017.pdf
67. Letter from Andrew Bailey, CEO, FCA (17 August 2016).
68. This was highlighted in the immediate aftermath of the 2016 Referendum with the FCA stating that there were 5,476 UK firms with 'outbound' passports, allowing them to conduct business in the EU or EEA. There were 8,008 EU / EEA state firms with 'inbound' passports, allowing them to conduct business in the UK. The scale of the activities by those passporting from the UK was, however, across multiple areas. Letter from Andrew Bailey, CEO, FCA, to Rt Hon Andrew Tyrie MP, Chairmain of the Treasury Committee, 17 August 2016, https://www.parliament.uk/globalassets/documents/commons-committees/treasury/Correspondence/AJB-to-Andrew-Tyrie-Passporting.PDF
69. 'Temporary permissions regime', *Financial Conduct Authority* (24 July 2018) https://www.fca.org.uk/brexit/temporary-permissions-regime-tpr

persons exclusion", which essentially allows for cross-border investment business to be conducted from abroad without a UK licence. Similarly, the temporary marketing permissions regime (TMPR) allows certain EEA-based funds to continue marketing themselves in the UK as they were during the transition period. By December 2020, 1,476 firms had applied for a TPR, with over a third of applications coming from Ireland (228 firms had applied as of October 2019), France and Germany.[70] A large number of these firms are expected to set up their first UK office, although this is hard to quantify.

The scale of the number of firms that have applied for the temporary permissions regime highlights London's powerful position. The UK has the option to make branch presences and cross-border business more difficult, if it wished, and in view of the EU's approach this is an option but given the UK's focus on open markets that might not be the best, long-term route to take. Thus, the UK should continue to offer this, highlighting its commitment to open markets.

70. 'London to remain financial services centre of Europe', *Bovill* (22 February 2021) https://www.bovill.com/london-remains-financial-service-centre-of-europe-final-numbers-show/ ; 'Number of EU finance firms to apply for TPR in the UK post-Brexit 2019, by country', T. Sabanoglu, *Statista* (1 July 2020) https://www.statista.com/statistics/1122584/number-of-firms-opening-uk-offices-after-brexit/

12. Push back on the EU's aggressive approach

I have seen no reason to alter my pre-Referendum view that the amount of business and jobs in the City will grow, but that some of the EU centres would gain in relative terms, as niche players, and that London would remain the leading centre and by some distance. But it is important for the UK to avoid policy mistakes, and to not be passive in its approach. Complacency must be avoided. The UK should stand its ground in light of the EU's stance towards it over the City and financial services.

What has happened since the Referendum?

One of the City's redeeming features over the years has been its political independence. Naturally, as anywhere, there were people with strong political views, but industry lobbies, organisations within the Corporation of London's unique governance structure and most institutions kept out of politics. While the City has been usually seen as having a pro-Conservative Party view that was never really tested in opinion polls, and Labour Party views have been represented there.[71]

The 2016 Referendum proved different. Financial institutions backed Remain and, surprisingly, the Corporation of London and some lobby groups **broke with the tradition of political independence.** Moreover, in the wake of the result, this did not change, perhaps not helped by the toxic political atmosphere in Westminster at that time. The relevance of this for now is that it took years, perhaps not until after the December 2019 General Election, for the City to move truly on and accept the Referendum result. The result was that a narrative that Brexit was bad for the City prevailed, and this cannot have helped the perception of London's position globally. Also, there was not much focus on financial services, despite it being the largest sector of the economy, with it not figuring perhaps as prominently as it should have done in the Government's thinking nor featuring much in the discussion around the Withdrawal Agreement. While some movement in trading was inevitable, the UK – and London – in all likelihood could have been in a far stronger position had the City and Government in the immediate aftermath of the 2016 Referendum witnessed a decision to move on and a determination to make Brexit work. Now, as cited above, things have moved on, and institutions and lobby groups are engaged and, just as importantly, the Government is taking a proactive approach,

71. Indeed I spoke at the first, and very well attended, Labour in the City event in June 2012. Naturally, I speak at these and other such events in a non-political context. "*The speakers were shadow chancellor, Ed Balls MP; Gerard Lyons, Chief Economist at Standard Chartered Bank and Joanne Segars, Chief Executive of the National Association of Pension Funds.*" Chair was Ben Hall of the Financial Times. https://www.labourinthecity.org.uk/tag/gerard-lyons/

but one legacy is the need to repair damage to the City's global image.

In a thoughtful piece[72], Howard Davies makes the important point that, "*London will shift from being its principal onshore financial centre, to an important offshore centre.*" Although, like this report, he states that it is likely that, "*London will remain Europe's largest financial marketplace, by a considerable distance.*"

What, though, has actually happened? In many respects, it is as one might have expected. How firms have responded has been driven by a combination of factors, with two in particular standing out, including new guidelines outlined by EU regulators and by a firm's own business model. Moreover, because of the lack of clarity post 2016, many firms had to assume no passporting and no equivalence and act accordingly. At the same time, many European centres were actively trying to attract London based firms. There may have been other considerations, too, including firms' views about the policy, tax and regulatory outlook in the UK and other European centres.

In view of this, since January 1st, a number of features have attracted attention. This has included the movement of euro-denominated share trading by EU based firms to euro located exchanges and movement of certain assets too.

A number of euro based financial centres were expected to see some gains, including Dublin, Luxembourg, Amsterdam, Paris and Frankfurt. All of this, however, needs to be kept in perspective. Pre-Referendum, the most likely outcome was that London would continue to grow, in business and people, but some of the regional centres across Europe would make relative gains, but not challenge London's dominant position. If one was to use the analogy of a cake for financial services across Europe, it would inevitably get bigger and London would have the vast majority of it, but it would likely have a slightly smaller proportion of that far-bigger cake. But complacency and policy mistakes must be avoided, and London must remain competitive and position itself in future growth markets, as outlined below.

The business that has moved to the EU should not have been a surprise. It was signalled well in advance that the EU would seek to move euro-denominated securities to be executed in the euro-area, if it could manage that. Not only should the scale of this move be kept in perspective, so too should the longer-term implications.

(a) The Amsterdam shares move. There has been much media coverage of events since January, the most obvious one being the coverage of increased share trading in Amsterdam.[73] There has been an increase in shares traded on Euronext, Amsterdam and the Dutch arms of CBOE Europe and Turquoise.

There are seventeen exchanges in western Europe, with Euronext third in size, Deutsche Borse second and the London Stock Exchange (LSE) first, but London is not just captured in the LSE. In fact, the bulk of trading never makes it onto these exchanges and is still conducted in London. This is through 'systematic internalisers' within large trading firms, where banks and other financial firms match up trades internally between clients,

72. Howard Davies, Guardian, 18/5/2021, *"Has Brexit fatally dented the City of London's future?"* https://www.theguardian.com/business/2021/may/18/has-brexit-fatally-dented-the-city-of-londons-future

73. Two of the most headline grabbing articles were those from the FT and IHS Markit cited here…. Financial Times 10/2/2021, "Amsterdam outs London as Europe's top share trading hub", https://www.ft.com/content/3dad4ef3-59e8-437e-8f63-f629a5b7d0aa Gerard Lyons, Spectator Coffee House, 11/2/2021 *"No, Amsterdam hasn't overtaken the City"*, https://www.spectator.co.uk/article/no-amsterdam-hasn-t-overtaken-the-city … IHS Markit, Kirston Winters, 10/2/2021, *"2021: Brexit, no equivalence for pan European OTC Interest Rate Swaps markets, what the data shows so far…"* https://ihsmarkit.com/research-analysis/2021-brexit-no-equivalence-for-pan-european-otc-interest-rate-.html … Centre for the Studies of Financial Innovation, CSFI, Discussion on the City, with this IHS Markit data cited https://www.youtube.com/watch?v=UU_Ryyz3X-kE

such as asset managers and banks. Other trades also do not make it onto exchanges, including those which takes place through block trades and, despite its name, the legitimate process of 'dark pools' which are private trading exchanges or forums where users have some degree of anonymity. They can be popular with institutional investors wanting to execute large orders without this becoming public and thus unduly affecting prices. So, the vast bulk of such trading, which is centred in London, is not captured on those exchanges.

Also, trading in euro shares is a subset of the international trading that takes place in London. In fact, the London ecosystem is vast. Also, business did not move to Amsterdam. Such trades are being booked within the EU because EU regulators now demand it. More importantly, though, the value in the trade has remained in the UK - in the sense that activities such as settlement, clearing and risk management are still carried out here, as have been the matching engines for the trades.

(b) In February IHS Markit reported that interest rate swaps data showed a decline for London. Since the start of the year, EU, UK and US firms can access global on-venue liquidity but, except in some special cases, UK firms cannot access EU venues and EU firms cannot access UK venues; alternatives being the US or Singapore. Interest rate swaps trading has been impacted because the market is now fragmented, with liquidity split because of the EU decision to withhold an equivalence determination. This limited the access of EU based firms to exchanges and multilateral trading facilities in the UK, like Swaps Execution Facilities, and vice versa. Initially the shift was pronounced in euro denominated interest rate swaps (the EU share went from 10% last summer to a quarter in January, the UK share from around 40% to around 10% and the US share rose too), and there was a less pronounced but similar story in USD and hardly at all in USD.

Subsequent data as reported in the FT has confirmed this has continued.[74] By April, the share of euro denominated interest rate swaps in the US had risen from close to zero at the end of last year to 16%. Amsterdam, meanwhile, is planning to build on this momentum, highlighting how expectations and plans are, naturally, influenced by trading flows and events.

The view in the City is that this is temporary, as a fragmented market helps no-one, but we will have to wait and see. If there was an understanding between the UK and EU such as mutual recognition or enhanced equivalence, then this business would likely drift back to the UK, in search of deeper markets. But, if that does not happen, and the UK and EU do not reach an accommodation, then one should expect a more aggressive response from the EU. Because fragmented markets would not be sustainable, they would likely seek to attract all such OTC derivatives trading and clearing to the EU. I would not expect this to be successful, but incentives might be offered and pressure applied.

(c) A detailed report, just released, by Deloitte on European capital markets[75] highlights that, "*New trading venues and systematic internalisers (SI) have*

74. FT, 18/5/2001 "*Brexit rift pushes swaps trading out of London*", https://www.ft.com/content/68dbd6c1-8def-4bab-95b1-2a367e062133

75. Deloitte and HIS Markit, May 2021, "*European Capital Markets: The regulatory considerations for banks as they move beyond Brexit.*"

been authorised in the EU to maintain EU clients' access to markets and liquidity. No single EU capital markets hub has emerged, but the Netherlands has been the main destination for multilateral trading facilities (MTFs), France for organised trading facilities (OTFs), and Germany for SIs." For equity markets, they noted that, "*the firms operating the largest MTFs and SIs in Europe now have venues or SIs in both the UK and EU. On the first day of trading after the end of the Transition Period, EUR 6.3 bn of daily EEA share trading migrated from UK to EU venues, representing the majority of the market.*" While, for bonds, "*EU supervisory expectations have led to the shift of traders and market risk of EU government (and some corporate) bonds and repos to the EU, with an associated migration of trading volumes.*" Deloitte also noted that, "*The UK has nevertheless retained its dominant position in terms of the overall number of authorised venues and Sis.*"

(d) The pandemic has been the biggest impact on the employment picture over the last year, but predictions of large-scale job losses from London were misplaced. Governor Bailey told the Treasury Select Committee in January 2021 that the number of jobs that have been moved to the EU lies between 5,000 and 7,000. In fact, according to an FT survey of 24 large international banks and asset managers, many banks have also increased their London headcount since the Brexit referendum and declining employment in some banks (Credit Suisse, Deutsche Bank and Nomura) was a result of unrelated restructuring, not Brexit.[76]

(e) If firms only had a presence in London, or only serviced their EU clients from London, or conducted their euro business from London, they may be under pressure to set up operations in the EU if they have not already done so. Likewise, firms in the EEA may be considering establishing operations in London if they were not already there. Passporting is two-way and as noted above, close to 1,500 firms from the EEA had applied to the UK for temporary permissions regime, in order to access the City, from an on the ground presence. Of course, it should be pointed out that the scale of these firms may well be small, in comparison with the firms based in London who have seen their business plans impacted by the lack of a deal between the UK and the EU. The scale of the activities by those passporting form London was across multiple areas. Thus, it is early days to assess the overall impact.[77]

According to a survey from New Financial, "*more than 440 financial services firms in the UK that have responded to Brexit in some way by relocating part of their business, staff, or legal entities to the EU… We have identified more than £900bn in bank assets (roughly 10% of the entire UK banking system) that have been or are being moved.*" Perhaps to echo the point we make below about the UK taking a more pro-active approach, New Financial noted, "*As the EU takes a tougher line on the location of activity and individuals we expect these headline numbers to increase in future.*"

Importantly, they also noted a point that, "*The 'good' news is that the extent of this relocation activity means that most firms in the UK that need continued access to clients and markets in the EU now have it. With that access in hand, this is perhaps an opportunity…* and move beyond the debate of the past few years of how closely the UK should remain aligned to the EU in exchange for more access to EU markets." That leads naturally onto the following.

76. 'Finance jobs stayed in London after Brexit vote', *Financial Times* (12 December 2020) https://www.ft.com/content/0c7c2597-4afd-4ade-bc19-02c3bbc53daf
77. New Financial, 16th April 2021, https://newfinancial.org/brexit-the-city-the-impact-so-far/

Focus on the following areas

From a policy perspective, the focus should be on the following areas:

- **Ensuring that the EU does not "force" business that does not need move to the euro area to do so;** there is a difference between trying to attract such business, which is legitimate, and the approach being taken by the EU, alluded to by the Governor in his mid-February speech mentioned earlier. In that, as he pointed out, the EU had granted equivalence status, and hence the implied recognition of the other country's regulatory standards, to a host of countries such as the US, Canada and Brazil, and that they would adhere to international standards, but was not prepared to do so to the UK. Instead, the UK would need to adhere to the EU's rules, which he correctly stated, was, "*rule-taking, pure and simple*". Given the size and scale of the UK financial sector, especially in relation to its GDP, such an approach is acknowledged by most as not acceptable. The UK should not be bullied into such a subservient position as a rule-taker that would not help financial stability or the City's efficiency or competitiveness.
- **Crucially, for the UK to encourage the development of parallel markets for euro-denominated securities in London**, as outlined below.
- **Very importantly, UK policymakers need to assess the resilience of the UK financial eco-system and not take anything for granted**. While, many areas of business are unchanged, it is important that any issues facing clearing houses and trading venues are addressed and resolved, and that the stickiness of these is ensured. Such comments are made from a position of strength.
- **Firms should also be encouraged to embrace 'reverse solicitation'**, and not be discouraged from using it, as it is a recognised legitimate way means to conduct business, where EU based customers can use UK financial services.[78] One might call this, legitimising the legitimate. It means a client in the EU could contact a financial firm in London to carry out business, while that same firm would not be allowed to contact the EU based person directly. Naturally, it is not going to be the basis of any firm's sole business model and no-one would seek to suggest it is. A more solid framework is required: that is for the UK to embrace an open system, as outlined above, while playing a lead role in global standard setting bodies.

Support the growth of parallel markets in London: the 'euro-euro'

The regulatory environment has been a vital success story of the City**. In recent history two periods stand out, with relevance for now. One was the Big Bang of the mid-1980s** as an important milestone. Initially,

78. Barney Reynolds pointed out that the UK Government could pass legislation to reassure firms on this, and that it would not enforce any arbitrary decisions of EU regulators on British firms. Also see, See 4/2/2021, Politeia, "*Trade's Winning Ways – the UK's Financial Sector and the EU*", Barnabas Reynolds, https://www.politeia.co.uk/trades-winning-ways-the-uks-financial-sector-and-the-eu/

the idea behind this was to address the outdated working practices on the London Stock Exchange, but then through the desire to embrace deregulation and to welcome international owners and foreign investors, it helped transform London, relative to other European financial centres. At that time, many American institutions were viewing a range of European cities before settling for London as their regional hub.

The other key period was the 1960's, when a tougher environment in the US, including higher taxes, allowed London to become the home of the offshore dollar market known as the 'euro-dollar' market where the term euro meant international. Then, it was London's ability to benefit from the actions of others and be seen as both attractive and competitive. Competition across financial markets mean that restrictions in one location can help boost volumes in another.

Now, the direction of travel of EU regulations could **see London become an attractive venue for parallel markets in euro-denominated instruments - a legitimate offshore trading centre of euro-denominated securities**[79] and, as Barney Reynolds has, correctly, pointed out[80], "*this can be done for numerous asset classes, including foreign exchange, interest rates and equities using instruments such as non-deliverable forwards, total return swaps and depository receipts.*"

That is an international euro market, or 'euro-euro' market, developing, like the euro-dollar market before, led by actors within the EU that want the best return, in the safest way, on their money. As the EU tries to create a walled garden, introducing impediments to institutions and individuals as to where they can place their investments, business can migrate to London. There is a rich financial history of innovation and circumvention to the introduction of barriers and historically – and currently - where walls are built, liquidity finds suitable alternative secure homes at regulated institutions in London and elsewhere. The regulatory stance that the UK takes will contribute directly to London's competitiveness.

The success of such parallel markets in London would depend on where it was that clients wanted to conduct business – and that would be a function of the depth and breadth of markets. Expect deep and liquid markets to be a continued characteristic of London's success.

79. See 28/11/2017, Politeia, "The Art of the No Deal: How Best to Navigate Brexit for Financial Services", p. 103, https://www.politeia.co.uk/wp-content/Politeia%20Documents/2017/The%20Art%20of%20the%20No%20Deal/Reynolds,%20Barnabas%20'The%20Art%20of%20the%20No%20Deal%20-%20How%20Best%20to%20Navigate%20Brexit%20for%20Financial%20Services'.pdf

80. Barney Reynolds, 17th April, 2021, "Equivalence is dead: the UK has to lost the EU's shackles" Sunday Telegraph, Equivalence is dead... the UK has to lose EU shackles (telegraph.co.uk)

13. Clearing and the stickiness of much of what happens in London

A hotly disputed topic is the central clearing (clearing) of euro-denominated derivatives through central clearing counterparties (CCPs), also known as clearing houses such as London Clearing House Ltd in the UK (part of the LSE Group), Eurex Clearing in Frankfurt (part of the Deutsche Borse Group), London Clearing House SA in Paris and the smaller EuroCCP N.V. located in the Netherlands. Ahead of the UK's exit from the EU around three-quarters of euro clearing took place in London and about one-tenth in Paris. The EU has made clear the euro-clearing business that takes place in London should move to the euro area. Clearing takes place where it is most competitive, hence currency-denominated instruments can be cleared outside the country to which they relate.

Such clearing takes place within highly regulated clearing houses that allow banks and others to net their positions and reduce their overall costs. This attracts the volume of business needed to ensure markets are deep and liquid enough to operate efficiently, with costs and spreads low. As in many other areas, London has the combination of factors that gives it a cutting edge. Indeed, this service was initiated in the UK by London Clearing House in 2000 and has developed in London allowing it to be the market leader in the clearing of over-the-counter derivatives denominated in any currency including euro, USD and GBP. What happens next will be heavily influenced by the regulatory landscape and determined, ultimately, by where the deep and liquid markets are.

As expected, post Brexit, a change in the regulatory landscape will see a movement of some activities, in terms of where they are cleared. In the area of wholesale payments this might be viewed as understandable from the perspective of financial stability. **But in other areas for the EU's regulations to force EU banks to conduct their business in the EU, not outside, might be seen as protectionist and discriminatory and result in a fragmentation of the market, with costs higher.**

Euro-clearing is the ability to centrally clear euro transactions within London. The impression can be given that if the EU mandates it, this business will simply move to the euro area. To be clear, as financial centres are impacted by the regulatory environment, the decisions of regulators will have an important bearing but so too will commercial considerations, and where businesses and clients want to conduct business.

One needs to differentiate between clearing in four main areas[81]. These are:

- Wholesale payments
- Foreign exchange settlements
- Securities clearing, through CCPs.
- Derivatives trading, through CCPs.

While there is a cluster or agglomeration effect, across financial services, each asset class is also impacted by different drivers. Consider each, in turn.

Wholesale payments: banks and credit institutions that undertake euro payments will either need to move that activity into the euro area if it is not already there or establish agent-clearing arrangements with subsidiaries within their group or with third parties that have access to TARGET2, the real-time gross settlement system of the European Central Bank (ECB). The ECB outlined its location policy in July 2011, implicit in the publication of its euro-system policy oversight framework. This posited that financial market infrastructures handling euro transactions should, "*be legally incorporated in the euro area, with full managerial and operational control and responsibility over all core functions for processing euro-denominated transactions, exercised from within the euro area.*" Thus, the scope of the financial market infrastructure within the euro area is critical. The ECB's reasoning is that CCPs may pose a systemic risk, especially to market liquidity, and it must therefore be possible for the central bank to ensure emergency liquidity provision to major euro-clearing facilities.

FX settlements: there should be no impact as this is part of the global Continued Linked Settlement system (CLS) founded in 2002 and regulated by the US Federal Reserve. Clearing is a distinctly different activity to settlement. Flows of euros, for example those representing unsecured deposits, placements or loans, the cash legs of securities trades or the euro leg of a foreign exchange transaction settle in the EU at a euro area bank with access to the TARGET2 payment system directly or via the commercial banks within the EEA that have access. This has been the case since the euro was launched and reflects how payments are settled worldwide. For example, all dollar payments settle at a settlement bank in the US with access to the Federal Reserve Bank banking system. In the UK sterling payments settle at any one of a number of settlement banks.

Securities clearing through CCPs. A broad range of cash equities are cleared in the EU already, with the three main ones being the LCH Ltd, x-clear in Switzerland and EuroCCP. The settlement of the securities takes place at international central securities depositories (ICSDs) such as Euroclear, Brussels or Clearstream, Luxembourg or at domestic securities depositories in Frankfurt, Paris, Milan and other European capitals. Settlement is an agency activity, with the ICSDs or ISDs acting on behalf of their clients but not adopt the risk of both parties to a trade as in the case of central clearing.

The fourth area is derivates clearing through CCPs. These are not easy

81. I am indebted to Danny Corrigan, a well respected City trader, for his input on some of the detail here.

to migrate to the euro area given their legal and insolvency issues.

The Bank of England, in March 2015, signed an enhanced information-exchange agreement with the ECB, covering UK CCPs with substantial euro-denominated activities, in effect taking account of concerns around market liquidity in stressed conditions[82]. It also extended its bilateral currency swap arrangement with the ECB to enable multi-currency liquidity support to UK CCPs. Also, bilateral swap arrangements have become common among central banks since the 2008, to mitigate against systemic risks and are not contingent upon EU membership.

When one examines these different asset classes it shows a more complex picture of clearing, and also the strong position of London. But complacency must be avoided, and a pro-active policy response adopted in other areas where it can make a difference, as highlighted by the next section.

82. March 2015, "*European Central Bank and Bank of England announce measures to enhance financial stability in relation to centrally cleared markes in the EU*" https://www.ecb.europa.eu/press/pr/date/2015/html/pr150329.en.html

14. Need to safeguard and strengthen the City's infrastructure

There is a need to appreciate fully the infrastructure needs of the City, and to recognise where these may face a concerted challenge from an aggressive EU, and at the same to identify areas that the UK needs to strengthen, or address.

Matching centres

One such area is that of matching centres. In late April it was reported that Euronext, having acquired Borsa Italiana would move the matching centre from Basildon to Bergamo, just outside Italy. This decision helps reinforce a point made in this paper, namely the need to focus on the City's infrastructure. Basildon is occasionally cited, along with Slough, as part of the ecosystem of the City, being two matching engines of the UK and Dutch exchanges. For example, Equinex runs a data centre and internet exchange point known as LD4 in Slough, Berkshire. Here is where many of the UK's and international exchanges and trading venues house their computer servers in co-location with many other firms.

Like other aspects of the core infrastructure, matching engines are both an ingredient of, as well as a reflection of, London's success, reflecting its highly interlinked ecosystem. These are, effectively, state of the art facilities where buy and sell orders are matched electronically and instantaneously, from exchanges across Europe.

There are renewal contracts for such locations. So they can move. Ahead of the announced move of the Basildon matching centre, I had written here that it would be naïve not to expect some governments or authorities elsewhere to be seeing what they can do to move such matching engines, and while it would be seem too complex an exercise to move something that works well and has proved to do so over time in many stressed environments, that does not mean that this area should be taken for granted. Given that this has now happened, despite the strong economic case for it not to occur, it reinforces the need for the UK authorities to be mindful of the risks and challenges that may confront other parts of the City's infrastructure.

Attractive location for data centres

London, also, needs to remain at the forefront of being an attractive location for data centres. But one issue that warrants some focus is whether the City's competitiveness would be enhanced by the UK hosting a cloud hub to strengthen its position.

Increasingly data centres and such hubs are becoming more important. With the world economy going through a digital and data revolution, data is a critical resource in its own right as well as important for financial centres. Across western Europe, more countries are attracting co-location data centres, with Frankfurt and London the two key ones, but others noted are Amsterdam and Paris (the so-called FLAP), with others such as Dublin and the Nordic countries important too. According to CBRE, "*Another trend seen in London and Frankfurt, accelerated by COVID-19, is land price inflation resulting from high demand in the logistics sector – a result of the online retail boom.*"[83] This is not all linked to the financial sector, but just as FinTech will play a vital future role in the City's success, data will be critical to economic and financial sector capacity and competitiveness.

As just one example of the interconnectivity, "*Equinix London also provides direct access to over 30 European markets and 80 exchanges*" [84].

As an indication of how much investment is taking place in the data area, in 2020, CBRE reported additional data centre supply across the FLAP of Frankfurt 62 MW, Amsterdam 57 MW, Paris 29 MW and London MW, and that, "*These figures will look drastically different in 2021. For example, London is already positioned to see more than 110MW of new supply through the year, Frankfurt almost 140MW, Paris a record 90MW and Amsterdam 70MW – astonishingly high figures.*"[85]

Data democracy

Data democracy should be an important area, and this may warrant a greater role for the ICO - the Information Commissioner's Office, which upholds information rights in the public interest, including data privacy for individuals. This is an important area outside the remit of this report.

Consolidated tape also part of the infrastructure focus

Consolidated tape (CT) is another facet of the infrastructure debate[86] – albeit what one might term soft as opposed to hard infrastructure. This should not be a concern for London, but it is another indication of where the UK will need to make progress on, possibly with the EU and, if not, then by itself. The identification of CT as an issue to be addressed is a market and not an EU issue, but how it is addressed will be linked to our relationship with the EU.

Last year's European Commission report[87] into CT stated that it had, "*Incorporated feedback from EU 27 and UK investors who describe their desire for CT data as being "pan-European"*. This includes UK data and it can be reasonably assumed" that where the UK retains direct access rights, "*the EU and the UK would work together to progress the regulatory, operating and technical framework required to establish and develop a consolidated set of data across Europe.*" However, where the UK does not retain such access, "*the UK and EU may not co-operate to build combined CT data and the EU will consider whether it needs to develop CT data for the EU 27 markets*". The different outcomes to the passporting issue will impact data stakeholders including trading venues, financial firms, investors and regulators.

83. This quote is from CBRE, "*Europe Data Centres*" Q2, 2020 http://cbre.vo.llnwd.net/grgservices/secure/Europe%20Data%20Centres%20Q2%202020%20FINAL_qo7K.pdf?e=1617612683&h=0d2080711423e288d44e582656fb4d05
84. See Equinix, Jan 2020, "*Equinix Europe 2020: Hyperscale and Colocation Demand is Riding High*", https://blog.equinix.com/blog/2020/01/15/equinix-europe-2020-hyperscale-and-colocation-demand-is-riding-high/
85. See also, CBRE edition Q4 2020, "*Europe Data Centres*", http://cbre.vo.llnwd.net/grgservices/secure/Europe%20Data%20Centres%20Q4%202020%20FINAL.pdf?e=1617613108&h=ad17978968c23db36aab3d40b1b25f9d Also, Q2, 2020 edition consulted.
86. See International Capital Market Association, April 2020, "*EU Consolidated Tape for Bond Markets Final eport for the European Commission ICMA MiFID II Consolidated Tape Taskforce*", https://www.icmagroup.org/assets/documents/Regulatory/MiFID-Review/EU-Consolidated-Tape-for-Bond-Markets-Final-report-for-the-European-Commission-290420.pdf
87. European Commission, September 2020, "*The Study on the Creation of an EU Consolidated Tape FINAL REPORT Executive Summary*" https://www.marketstructure.co.uk/wp-content/uploads/Full-Report--The-Study-on-the-Creation-of-an-EU-Consolidated-Tape.pdf

15. Future growth markets: the City is in a good space

The City should ensure it has all the tools and regulations in place to be able to specialise fully in the already identifiable future growth areas of financial services. As it is not always possible to see where the growth markets may be, it is vital therefore to have the right ingredients in place to succeed, as highlighted above.

It is important not to micro-manage how the City will evolve. But at the same time if we identify just some of the already emerging trends, this should provide some insight into areas where support can be provided, attention focused or bottlenecks removed.

The Future of Finance Report

An important aspect is to position the financial sector to address the needs of the economy. At his annual Mansion House speech, in June 2018, the Governor announced a review that would "*set out a vision for the medium-term future of the UK financial system*". While his focus was on what it might mean for the Bank, so that it could support that vision, the very fact that the Bank oversaw this review **may give oxygen to a view that some hold, including this author, that the Bank should take on a greater role for representing the City**.

That report[88] was produced in June 2019 by Huw van Steenis, on the future of finance. There was also a response from the Bank, which at the time seemed strange as apart from its main author, the Committee overseeing the report was full of Bank executives. Five priorities were identified.

- **Priority 1:** Support a more resilient, innovative and competitive payments system for UK households and businesses. This would result in payments for UK households and businesses being cheaper, instant and seamless, including across borders.
- **Priority 2:** Help create an open platform to boost access to finance for small businesses and increase choice for people. As the report stated explicitly, "*Help to close the £22 billion SME funding gap in the UK*".
- **Priority 3:** Support an orderly transition to a carbon-neutral economy, with the report stating that the financial sector would support this by "*managing the risks and seizing the opportunities*".
- **Priority 4:** Deliver a world-class RegTech and data strategy. The report had identified a £2 billion–£4.5 billion reporting burden

88. https://www.bankofengland.co.uk/report/2019/future-of-finance

which could be substantially reduced while enhanced supervision would enable a safer system.

- **Priority 5:** Facilitate greater resilience and adoption of the cloud and other new technologies. The financial system will be safer and more efficient, unlocking savings for customers without compromising resilience.

As stated in its executive summary, these, "*also raise some fundamental challenges to traditional models of regulation, economic modelling and central banking as a result of these technological and economic changes.*"

Range of growth areas

In recent years, the UK has positioned itself well in establishing expertise in a range of specialist high-growth areas. Of particular note are **Green Finance, in trading the offshore Chinese currency, in Islamic Finance and in Financial Technology (FinTech).** The latter is particularly impressive and indeed after the 2016 Referendum, the major tech firms committed to new investment in London, making it their global tech hub, outside of Silicon Valley and enhancing London's position in FinTech. The growing interaction between finance and technology means this is hugely positive. London is already in pole position to be the FinTech capital of the globe, although Berlin, Singapore and others are seeking to build their strength in this area, too.

The important issue is to ensure that London can retain its competitive position in these areas, and position itself in others too, one of which that is currently topical is that of digital currencies. [89]

Digital currencies

An important future development is that of central bank digital currencies (CBDC). Just as this paper was going to print, HMT and the Bank of England announced the formation of a digital currency task force[90], which we would support fully, and indeed were about to advocate.

Last October, the Bank for International Settlements (BIS)[91] issued a report alongside seven central banks, including the Bank of England[92] on central bank digital currencies. The BIS's innovation hub is also working separately, in Asia, with the PBOC, Bank of Thailand and Hong Kong Monetary Authority in this area, and many countries are looking at this issue. An earlier analysis by the BIS, in 2018[93], found that a CBDC would alter the transmission but not the basic mechanics of monetary policy implementation. But it would likely have, "*wide-ranging implications for banks and the financial system. Commercial banks' reliance on customer deposits may become less stable, as deposits could more easily take flight to the central bank in times of stress.*" It also anticipated an impact on the efficiency of financial intermediation.

Their more recent report focused on three principles for a CBDC: (i) coexistence with cash and other types of money in a flexible and innovative payment system; (ii) any introduction should support wider policy objectives and do no harm to monetary and financial stability; (iii)

89. This has been pushed strongly by the City United Project (CUP) cited earlier.
90. https://www.gov.uk/government/news/ambitious-plans-to-boost-uk-fintech-and-financial-services-set-out-by-chancellor
91. Bank for International Settlements, "Central bank digital currencies: foundational principles and core features", https://www.bis.org/publ/othp33.htm See also, BIS, October 2020, "Central banks and BIS publish first central bank digital currency report laying our key requirements" https://www.bis.org/press/p201009.htm Also see, Bank of England, October 2020. "Central banks and BIS publish first central bank digital currency (CBDC) report laying out key requirements" https://www.bankofengland.co.uk/news/2020/october/central-banks-and-bis-publish-first-cbdc-report-laying-out-key-requirements
92. The other central banks, alongside the Bank of England and the BIS, were Bank of Canada, Bank of Japan, the European Central Bank, Federal Reserve, Sveriges Riksbank and the Swiss National Bank.
93. BIS, March 2018, "Central bank digital currencies" https://www.bis.org/cpmi/publ/d174.htm that weighed the needs to consider financial stability and monetary policy from issuing digital currencies.

features should promote innovation and efficiency. While these are the principles of that BIS report, the reality is that this is a complex area, where much work is still ongoing.

A digital currency could take a number of different routes. While there is a strong case for a digital payments system that includes a digital facsimile of cash, in terms of a future digital currency, the crypto currency route is not the route to take. The operating costs would likely be high[94], security would be an issue and, given the legacy issues of UK banks, its operating speed in the UK slow. A crypto currency cannot work in isolation from a banking system, as there needs to be the ability to convert the fiat currency, say sterling, into the cryptocurrency and back again.

Instead, the UK may have the ability to take the lead, by launching a digital facsimile of cash with all the benefits of cash and none of the shortcomings of blockchain or cryptocurrencies. It is something that would need to be plumbed into a reformed banking system as the legacy system cannot manage the transaction speeds necessary to manage digital cash. To achieve that, the UK would launch a new RTGS that supports real-time clearing and settlements for wholesale, commercial and retail transactions[95].

Success in this area would provide a huge breakthrough in bringing banking and financial services, at very low cost, through the RTGS to the unbanked and those not serviced directly by the financial system. It would also fit with the need for the City to service fully the needs of the domestic UK economy.

FinTech

FinTech is a fast-growing field that exists at the intersections of new technology and financial services. FinTech firms are often start-ups, small and disruptive, and invest heavily in new software and intangible assets but do not have a high street presence. The UK has emerged as a leader in FinTech, due to the strong existing financial services sector and associated expertise, strong venture capital base, an innovative regulatory regime (helped by for instance the FCA's regulatory sandbox), and tax breaks for start-ups. There were 1,600 FinTech firms in 2019 generating £11 billion in revenue (up from £6.6 billion in 2015), which is around 8% of total financial services output.[96] This is expected to rise to £13.7 billion by 2030.[97] 17 of the top 50 FinTech companies are based in London, according to CityUK[98] although the Kalifa Report draw attention to its regional dimension too.

That recent Kalifa Report[99] was of particular importance, outlining a broad array of ideas to allow the UK to both reinforce its strong position and also seize the initiative in the face of competition from elsewhere. It outlined an array of possible policy areas. Notable ones included, establishing a Digital Economy Taskforce to ensure alignment across government, driving a national coordination strategy through a centre for Finance, Innovation and Technology, a new visa stream to attract talent, a Scalebox to support firms on scaling innovative technology, and

94. A cryptocurrency's operating cost is in direct proportion to the cost of silicon and electricity, and they use a great deal of electricity. For example, see the 'Cambridge Bitcoin Electricity Consumption Index' at https://cbeci.org/ To outsource this to where electricity is cheaper would put the control of that CBDC in the hands of that third country.
95. Much work has been ongoing in this area, for example the US faster payments task force https://www.federalreserve.gov/newsevents/pressreleases/files/US-path-to-faster-payments-pt1-201701.pdf
96. 'UK FinTech: Moving mountains and moving mainstraim', *EY* commissioned by *City of London & Innovate Finance*, DATE
97. 'Digital big bang' needed if UK fintech to compete, says review', D. Thomas & N. Megaw, *Financial Times* (26 February 2021) https://www.ft.com/content/ab192505-7e94-4cb9-871a-d1797f5afec5
98. See page 15 of TheCityUK, 2019,"Enabling growth across the U.K. 2019", https://www.thecityuk.com/assets/2019/Report-PDFs/dfb6be8b79/Enabling-growth-across-the-UK-2019.pdf
99. The Kalifa Review of UK FinTech, February 2021, https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech

encouraging more FinTech clusters.

Within the Kalifa Report there is mention of how small firms can now have digital access to a wide array of lenders. In fact, it is an indication of the way in which FinTech can disrupt existing business models and have an economic impact. In that light, **the UK could reach out and provide FinTech services to consumers across the globe.** With a predictable and trustworthy tax and regulatory regime, with a super safe system, the UK could become a base for global consumer financial services.

Green Finance

The UK's progress in addressing climate change is admirable. This has been evident in many ways, including the commitment made in 2019 to achieve net zero carbon emissions by 2050, effectively ending the UK's contribution to global warming. The UK has also made significant progress in reducing its emissions of greenhouse gases. Between 1990 and 2017 these emissions fell 42% and continue to decline. Currently such emissions in the UK emanate from: transport 27%, energy supply 24%, business 17%, residential 15%, agriculture 10% and waste management 4%.[100]

Addressing climate change should be complimentary to economic growth globally, and not tied to an anti-growth agenda. It is also part of helping rebalance the UK economy. This requires sensible public policy but can only succeed with the financial and private sector onside. There needs to be not only better policy, a social agenda, but a profit motive too.

The UK's role in greening the financial sector is pivotal[101]. One consequence will be that banks and insurance companies better manage their risks in the area of climate change and there will be greater incentives for lending to clean growth areas. This is meaningful. The economics of smart cities, sustainable finance and green growth are part of the current Fourth Industrial Revolution. Incentives matter and the UK has the ability to use this to its advantage. Stronger sustainable growth would likely require more investment in high productive areas such as technical innovation, mechanisation and energy. Already there has been increased use of renewables, with the UK already taking a led in wind energy. Improving the energy efficiency of homes is essential but retrofitting and changing energy sources needs to be handled carefully to minimise cost.

Ideally, it would be desirable to align the needs of investors' environmental objectives with what can be achieved on the ground. As a growing number of investors and savers look to invest in ESG areas, green finance can be helped by a deliberate focus on growing the pool of investable assets, including the case for sovereign green bonds, including gilts. In terms of equity investments, as firms internalise their externalities linked to carbon emissions, another focus could be on improving transparency linked to this area, allowing investors to reward and invest in firms embracing the green agenda. Developments at the national level need to be complimentary to the work of the two international groups, the Task Force on Financial Related Disclosure and the The Network for

100. See Gerard Lyons, 'How to build a green economy that boosts growth and saves the planet, December 2019 https://capx.co/how-to-build-a-green-economy-that-boosts-growth-and-saves-the-planet/

101. Note the PRA has set up technical working groups in the area of climate change, covering risk managment, disclosure, scenario analysis and innovation. There will be two main channels through which this will impact the financial system: physical risks that will impact the insurance industry and transition risks impacting banks.

Greening the Financial System, as their outcomes will have industry wide implications across the financial sector, thus aiding the growth of green finance.

Green finance refers[102] to investment that contributes to environmental goals. While this field has been growing globally, with the value of global green bonds and loans issued increasing from under $50 billion in 2015 to more than $250 billion in 2019, the UK has developed a particular expertise.[103] In June 2020, as one example of change, the LSE expanded its criteria to enable more sustainability-linked bonds to be admitted.[104] While this is positive, the reality is that there is still a lack of investable green assets.

The growth of green finance must remain linked to growing the green economy, ensuring that emissions fall while economies grow. Thus there needs to be an increased focus on regulations linked to the green agenda, aimed at reducing the complexities and costs that may deter innovation and new entrants, while strengthening the quality of remaining regulations. (quality not quantity on the regulatory agenda).

We support fully the Green + Gilt proposal that was endorsed by the Government earlier this year. [105] Advocated by the Grantham Research Institute on Climate Change and the Environment, the Green Finance Institute and Impact Investing Institute. Green sovereign bonds are needed in their own right, but this Green + gilt is aimed at combining green investment with wider social and economic benefits, widening the investable pool of assets. There is an opportunity to construct a traded and reliably liquid benchmark, that helps facilitate the growth of this market.

Islamic Finance

The UK has been ranked as the top country among non-Muslim-majority nations worldwide for Islamic Finance. The assets of UK-based institutions offering services in Islamic finance were valued at more than $5 billion in 2019 and the first public sterling Islamic bond to be offered in a non-Muslim country was issued in the UK in 2018.[106] This is a growing sector for the UK, with the value of Islamic finance assets based in the UK increasing by 27% in 2019.[107]

Electronic and automated trading

This is another area that the City has a strong position in.

In recent years one area that has helped drive the growth of foreign exchange (FX) and over-the-counter (OTC) derivatives markets has been **electronification: the growth in electronic and automated trading**. The Triennial Survey conducted by the Basel based Bank for International Settlements is the most comprehensive source of information on the size and structure of these markets. The trading of short-term instruments grew faster than longer-term ones, and this in turn increased turnover as such contracts need to be replaced more often. In April 2019. The scale of trading continues to increase but, "**electronification propelled the growth of offshore trading and increased the diversity of market**

102. See paper citied in footnote 77.

103. 'Green finance: Mobilising investment for green growth', E. Tate & S. Hinson, *House of Commons Library* (24 June 2020) https://commonslibrary.parliament.uk/green-finance-mobilising-investment-for-green-growth/

104. See LSE, Jan 2021, "A year of green milestones for the Sustainable Bond Market" https://www.londonstockexchange.com/discover/news-and-insights/2020-year-green-milestones-sustainable-bond-market?lang=en

105. 'The UK can be a world leader in Islamic finance', A. Firdaus, *The Telegraph* (May 2019) https://www.telegraph.co.uk/business/business-reporter/uk-islamic-finance/

106. 'Key facts about the UK as an international financial centre 2020', *TheCityUK* (December 2020) https://www.thecityuk.com/assets/2020/Reports/8716847a2f/Key-facts-about-the-UK-as-an-international-financial-centre-2020.pdf

participants."

As the BIS said, "*The message that emerges is that OTC markets are larger and more diversified than ever, owing in part to the rise of electronic and automated trading. Even as trading picked up, compression and clearing helped to contain the growth of outstanding derivatives exposures.*"

The "pickup in turnover between 2016 and 2019 was especially marked in offshore markets." **Yet, despite all this, London retained its dominant role, and for reasons not linked to whether it was, or wasn't a member of the EU.**

As the BIS noted, "*In FX markets, London, Singapore and Hong Kong SAR increased their collective share of global trading to 75% in April 2019, up from 71% in 2016 and 65% in 2010. Trading in OTC interest rate derivatives markets was increasingly concentrated in a few financial centres, especially London.*" London, alone, accounts for 43%. Again, quoting the BIS, "*Even though FX trading is highly fragmented across numerous electronic venues and "liquidity pools", most activity passes through the desks of just a handful of top dealers in a few financial hubs.*"[108]

The following paragraph from the BIS highlights the vital importance of agglomeration effects and reinforces the focus on infrastructure highlighted above.

"*The economies of geographical concentration are the main force driving the rise of offshore trading. It is much less costly to build counterparty and credit relationships with dealers and clients in just a handful of centres than in each country separately. Placing FX desks within the same location as banks' other functions, such as money market and treasury units, also favours major financial centres. Differences in legal frameworks and IT infrastructures, and the sheer number of business affiliates that would be required to run geographically dispersed FX trading, all speak in favour of geographical concentration. In particular, major dealers tend to consolidate their electronic trading business in one of the major FX hubs. This concentration thus partly compensates for the decentralised OTC structure of FX markets. … For example, there are three main Equinix data centres and internet exchange sites: London (LD4), New York (NY4) and Tokyo (TY4). Major electronic brokers and FX dealers co-locate their servers in these locations, and so do the more sophisticated FX clients.*"

Listings

During 2017-19, at the height of the debate over Unilever's listing and Amsterdam I was struck by how no-one came forward with identifiable solutions, although they were available. I wrote an op-ed for the Financial Times on how to resolve the listings issue and authored a wider report on dual listings and the City[109]. As I stated in the summary of that 2018 report, "*One important, indeed essential and often overlooked, dimension is London's ability to attract global listings - highlighted over the last year by the international competition to attract Saudi Aramco's proposed listing.*" That report noted, "*It is important London highlights its attractions, and this has to include being flexible on rules such as listings*".

It has been encouraging to see the way in which this issue has evolved, and the recent Hill Review[110] into listings, aimed at boosting the UK's competitiveness in this important area.

The extent to which London has lagged behind its key competitors is as a centre for initial public offerings (IPOs) is highlighted by these

107. The BIS OTC derivatives data has been updated on 12/5/2021 see https://www.bis.org/statistics/derstats.htm

108. Gerard Lyons, IEA discussion paper, February 2018, Londons-Global-Reach-and-the-Half-a-Trillion-dollars-equity-prize.pdf (iea.org.uk) Also see, Gerard Lyons, The Times, 23 July, 2019, "Can London and New York stay on top as the world's financial capitals?", https://www.thetimes.co.uk/article/can-london-and-new-york-stay-on-top-as-the-world-s-financial-capitals-c8cxc5hzp

109. UK Listings Review, March 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966133/UK_Listing_Review_3_March.pdf

figures: although in 2020 $150 billion was raised from companies listing on Nasdaq and the New York Stock Exchange, only $6 billion was raised in London. Hence the calls in the Hill Review to boost the City's ability to compete for new issues and maintain a competitive edge in growth areas such as FinTech. My colleague at Policy Exchange, Geoffrey Owen, also makes the point that in the area of bio-tech one of the challenges to be overcome in attracting more IPOs is the absence in London of a well-informed investor community equipped with the expertise to assess early-stage science-based firms; that is why partly why NASDAQ is dominant in that area and the US has a much bigger biotech sector which has scored some huge stock market successes. Addressing this issue could, in my view, be linked into the need for more research mentioned earlier and might also mirror the growth of this sector of the economy with the UK outside the precautionary principle thinking of the EU.

The Hill Review made clear why there needs to be action, stating, "*Although listing on the premium listing segment of the FCA's Official List has historically been globally recognised as a mark of quality for companies, the figures paint a stark picture: between 2015 and 2020, London accounted for only 5% of IPOs globally. The number of listed companies in the UK has fallen by about 40% from a recent peak in 2008… One look at the composition of the FTSE index makes clear another challenge: the most significant companies listed in London are either financial or more representative of the 'old economy' than the companies of the future.*"

The FCA's response[111] seemed to capture the right approach, stating, "*The FCA will carefully consider Lord Hill's recommendations for changes to our listing rules, in line with our objectives, including on free float, dual class share structures, and special purpose acquisition companies (SPACs). Where appropriate, we will act quickly, with the aim of publishing a consultation paper by the summer. This would be open to all stakeholders' views and responses. Subject to consultation feedback and FCA Board approval, we will seek to make relevant rules by late 2021.*"

The importance of public markets was the starting point made in the Hill's Review. As he stated, "*A vital part of the whole financial ecosystem is the process by which companies raise capital on the markets, including by going public. We need to encourage more of the growth companies of the future to list here in the UK.*"

110. FCA, Mach 2021, "FCA welcomes Lord Hill's Listings Review report" https://www.fca.org.uk/news/statements/fca-welcomes-lord-hill-listing-review-report

16. Parliamentary accountability and scrutiny

Accountability is vital in a successful financial services industry. One of the interesting future debates is who is best placed to hold firms to account? This should not be such that firms are incentivised to remain private, and not launch on public markets. At its broadest level it merits a discussion about the appropriate type of capitalism. Stakeholder capitalism is gaining grounds over shareholder capitalism. At the corporate level, pressure is increasingly brought to bear through activist shareholders and investors. Climate change, and the environment being one important area where firms are being encouraged to change.

Greater scrutiny by Parliament

The structure and remit of Committees in the UK Parliament need to be amended to reflect the importance of financial services and the changes that are now merited, as we have left the EU.

We advocate the creation of a specialised committee of both Houses of Parliament to look at the specifics of financial services legislation. This should be in addition to the Treasury Select Committee of the Commons and the Economic Affairs Committee of the Lords. A second-best, would be the creation of specialist sub-committees to the existing committees.

These new committees would need to engage more, on a rule-by-rule basis with the regulators, and not take a hands-off approach. Parliamentary oversight, with penetrating questions, is needed.

For this, though, to be effective, there needs to be sufficient resources and technical expertise. There may also need to a new formula worked out where, in dealing with financial services, there is a new way between existing select committees and bill committees (which can make adjustments but usually are whipped along party lines), so that a mechanism can be found where the committee can learn and make adjustments to regulation.

Such a committee should be expected to take a coherent view of the functioning of financial services and assess the way in which rules, regulation and legislation effect its functioning, rather than just an interrogation of individual rules on their own. Key issues including how they combine and the perverse and unexpected consequences that may follow from them.

There is little doubt that being outside the EU system will create benefits, as touched on elsewhere in this report. But there are issues, such as the drive for transparency and issue of scrutiny that came with EU membership that needs to be addressed. There was an important session of the Treasury Select Committee in late January[112] with Lord Hill, Baroness Bowles of Berkhamsted and Dr Kay Swinburne. They pointed out that the UK system is fundamentally different to that of the EU system. In the EU, colegislators construct, shape and drive both legislation and policy.

In her answer to question 55, Baroness Bowles outlined a particularly important point, "*You have to go back to the start and say that we have lost a lot of scrutiny. Whatever you may have thought of the EU system, there is no doubt that, for those who wanted to bother to engage with it, there was a huge amount of transparency. That was the backdrop to our legislation. It is the backdrop to FSMA 2000… It is very old-fashioned to be so lacking in transparency. I just do not see how we can be a global leader unless we mend our ways. It is as strong as that. If you want long-term success for the financial industry … then the system has to be updated to give that power to the Parliament to do that useful scrutiny. This is not about getting at Government. It is not about getting at regulators. It is actually about being a world leader.*"

111. Lord Hill of Oareford, Former EU Commissioner for Financial Services, European Commission; Baroness Bowles of Berkhamsted, Former Chair, ECON Committee, European Parliament; Dr Kay Swinburne, Former Member, ECON Committee, European Parliament, and Vice-Chair of Financial Services, KPMG.

17. The City needs someone to represents its best interests

A recurring theme is who speaks up for the City? The absence of the financial sector in the UK-EU withdrawal agreement might have been an unintended consequence of this.

Many things work well at present. People and groups are free to make submissions to the plethora of consultations that take place on important proposals. The Bank and regulators host many different fora at which people and groups can contribute.

The main groups that are often turned to for advice include the Corporation of London, UK Finance (rebranded having previously been the British Bankers Association) and TheCityUK. Having been on the Board of TheCityUK I can vouch for the excellent work they carry out. There are other industry bodies too. But the emergence of groups like the City United Project is testimony to the fact that many may not feel their views are listened to. Perhaps a semi-formal, quarterly meeting to which all the City groups are invited, chaired by an appropriate Minister is needed.

Again, as with the new format suggested for Parliamentary committees above, this should not be the rehearsal of a potpourri of individual measures or platitudes about the importance of the City – but rather a constructive focus on the role of banking, financial services, money and capital markets in facilitating commerce, trade, saving investment and the management of risk in the lives of households and businesses and the challenges that financial markets exhibit and that particularly affect London as a financial centre and the UK economy.

Also, it was noteworthy that in the recent Hill Review on listings, the first recommendation was for the Chancellor to provide an annual update on the City to Parliament. This, in some respects, is an attempt to fill this gap, and keep tabs on the City's success. There is already a City Minister, reflecting the industry's importance. Perhaps this needs to be considered within any overhaul of Whitehall, including the role of HM Treasury, which is a super-ministry covering so many areas, including financial services**. This quarterly gathering could produce, on a regular basis, a Barriers to Business Report, to help inform the policy debate.**

18. Final note

The UK is an imbalanced economy, with many areas of world class strength, including the City, but also with large numbers in low wage and low productive roles. There is a need to boost economic growth and to rebalance the economy. The City and UK financial services have an important role to play in helping achieve this.

The world economy continues to change and the City has a role to play here too, as the UK seeks opportunities from the digital and data revolution and faces up to the shift in the balance of economic power to the IndoPacific.

Since the start of the year the UK's exit from the EU has triggered increased uncertainty and strengthened the position of some of the smaller financial centres across the euro area such as Dublin, Amsterdam, Paris and Luxembourg. This was expected and needs to be kept in perspective as London is still set to remain the financial centre of Europe – albeit for the EU, an offshore centre. The other major financial centres in Europe are niche players. They are unable to match the infrastructure or attract the clients or mirror the market depth and liquidity that are features of the City's success. While we expect this dominance to continue nothing should be taken for granted. Moreover, London will face enhanced competition from New York and centres across Asia.

Given this, a more pro-active approach by Whitehall, Westminster as well as the Square Mile is called for, reflected in the need for a strategy and a vision towards the City and UK financial services. This strategy needs to convey clearly a global message that is evident to many of those who work on the ground across the City, that London remains "the" place to do business in and from, highlighted by the need of European firms to have access to it, that it is well placed with the UK outside the EU and its future prospects are excellent.

This report has outlined such a strategy that needs to address the economic role that the City and financial services can play and to enhance London's competitive position as a world leading financial hub.

Appendix: The scale and importance of the financial services sector

What is included

The contribution of financial services to the economy usually encompass 'financial service activities, including insurance, reinsurance and pension funding activities, and activities to support financial services', according to the UK Standard Industrial Classification (SIC) Hierarchy.[113]

Although this classification measures the economic activity directly related to financial services, it does not take into account the full impact of financial services on the UK economy and the positive spill-over effects that this sector generates.

Importance peaked in 2008

The importance of the financial services sector has increased since the early 1990's. The sector saw the most rapid growth in terms of its share of Gross Value Added (GVA) between 2001 and 2007, where its contribution to the UK economy increased by two thirds, contributing 8.3% of GVA by 2008. Then, following the financial crash, the contribution of this sector to the UK economy has slowly declined. In 2019 it contributed £124.9 billion to economy, equal to 6.3% of total output.

Despite a rising share of GVA since 1990, the financial services sector directly employs a smaller share of the UK workforce now.[114] While 4% of jobs in 1990 were in the financial and insurance sector, this fell to 3.3% in 2020.[115] This still means that 1.14 million people are employed in financial services.

These figures do not show the whole employment picture, as the financial services industry sustains a large number of jobs in sectors that complement their operations.

According to a 2019 report by TheCityUK, just under 2.3 million people are employed in UK financial and related professional services, which is equivalent to 7.3% of the working population or one in every 14 jobs.[116] These include 400,000 jobs in accounting, 495,000 jobs in management consultancy and 339,000 jobs in legal services.

112. 'UK Standard Industrial Classification (SIC) Hierarchy', *Office for National Statistics* (accessed February 2021) https://onsdigital.github.io/dp-classification-tools/standard-industrial-classification/ONS_SIC_hierarchy_view.html

113. Workforce Jobs (WFJ) is a measure of the number of jobs in the UK that is described the ONS as 'the preferred measure of the change in jobs by industry'. It is calculated using a range of sources, including employer surveys, the Labour Force Survey and administrative sources.

114. 'Workforce jobs by industry (SIC 2007) – seasonally adjusted', *Office for National Statistics* (accessed February 2021) https://www.nomisweb.co.uk/query/construct/summary.asp?menuopt=200&subcomp=

115. 'Enabling Growth Across the UK 2019: UK-based financial and related professional services', *TheCityUK* (June 2019) https://www.thecityuk.com/assets/2019/Report-PDFs/dfb6be8b79/Enabling-growth-across-the-UK-2019.pdf

The regional impact of financial services

Jobs in financial services are unevenly distributed across the country. London has both the highest share of regional jobs in financial services and the highest share of financial services jobs nationwide. 35% of jobs (402,108) in financial services are based in London, with a further 11% in the South East and 8% in the South West. Wales, the North East and Northern Ireland have the lowest share of jobs in financial services, with 3%, 2% and 2% respectively as of Q1 2020.[117]

When including those employed in related professional services, **there are 22 towns and cities across the UK with more than 10,000 people employed in financial services and related professional services**, with Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester all sustaining at least 30,000 jobs each in the sector.[118]

The financial sector has been more resilient to the effects of the pandemic than other sectors, as most employees are able to work from home. Output in November 2020 was down 3% on February 2020, whereas output for the economy as a whole was down 9.9%.

The distribution of output generated by the financial services is more unevenly spread across the country than the distribution of financial services jobs.

A third of the financial sector's jobs and half of its output is located in London. No other region generates a higher share of output than its share of employment. Only Scotland has equal shares of employment and output and these are 7%.

Trade

The UK has consistently run a trade surplus in financial services, which has grown over the last two decades. In 2019, this surplus was £41.1 billion, down from a peak of £45.9 billion in 2018. When related professional services are included, it is estimated that the UK ran a trade surplus of £79.7 billion in this field.[119]

In 2019, exports were worth £59.2 billion and imports were worth £18.1 billion.[120] Although exports in financial services grew rapidly in the early 2000's, growing on average 16% annually between 2000 and 2007, this has since slowed. Since the end of the Great Recession in 2009, growth in the value of financial services exports has averaged 2.2%. Nevertheless, the UK's significant surplus is impressive and indicative of the global competitiveness of the sector.

The UK was the largest net exporter of financial services, followed by the USA, Switzerland and Singapore.[121] The US is the single largest destination for UK exports of financial services (30.2% of exports), with 34.3% of exports going to the EU member states.

Taxation

The financial services sector is not only an important contributor to the economy and the UK's balance of trade, it is of vital importance to government revenues.

116. 'Financial services: contribution to the UK economy', G. Hutton & A. Shalchi, *House of Commons Library* (1 February 2021)
117. 'Enabling Growth Across the UK 2019: UK-based financial and related professional services', *TheCityUK* (June 2019)
118. 'Key facts about the UK as an international financial centre 2020', *TheCityUK* (December 2020) https://www.thecityuk.com/assets/2020/Reports/8716847a2f/Key-facts-about-the-UK-as-an-international-financial-centre-2020.pdf
119. 'Financial services: contribution to the UK economy', G. Hutton & A. Shalchi, *House of Commons Library* (February 2021)
120. 'Key facts about the UK as an international financial centre 2020', *TheCityUK* (December 2020) https://www.thecityuk.com/assets/2020/Reports/8716847a2f/Key-facts-about-the-UK-as-an-international-financial-centre-2020.pdf

The City of London Corporation and PwC conduct an annual survey of 52 financial services companies, from which they estimate the contribution of the financial services sector to public sector taxation. According to their calculations, in 2020 the financial services sector contributed £75.6 billion and 10% of all taxes in the financial year ending March 2020.[122] £34.1 billion is collected directly from financial services firms and £41.5 billion is collected from customers and employees.[123] According to their analysis, this sector pays 38.9% of its profits in taxes. **The 1.1 million people working in financial services, which make up just over 3% of the UK workforce, contribute to 11% of total employment taxes in the UK.**

The key components of where financial services total tax contributions in 2020 originated: 44.5% all employment taxes; 15.3% corporation tax (including bank surcharge); 14.8% VAT; 9.2% insurance premium tax; 8.5% tax deducted at source; 2.8% bank levy; 2.6% stamp duty; 2.1% business rates; and 0.1% others.

Although the Government does not publish data relating to taxes levied from the financial sector, this information is available for the banking sector. £30.7 billion in taxes were collected in 2019/20 from the banking industry. Of this, 69% was raised from Income Tax, 16% from Corporation Tax, 8% from the Bank Levy and 7% from the Bank Surcharge (introduced January 2016). Bar the financial crisis, the share of tax receipts collected from the Banking sector has remained constant, at just above 4%. In the financial year ending 2006 tax receipts from the banking sector as a share of all taxes collected peaked at 4.6% and despite rising between 2014 and 2018, this figure fell to 4.1% in the financial year ending 2020.[124]

UK Financial Services Subsectors

The UK financial sector is the most globally integrated sector of the UK economy. In 2015, Oliver Wyman estimated that around half of UK financial services revenues come from domestic business earned from UK clients, with under a quarter coming from international and wholesale business related to the EU and the remainder coming from international and wholesale business not related to the EU.[125]

Banks in the UK have the highest level of cross-border exposure, with more cross-border assets and liabilities than any other country. Its share of cross-border bank lending was 15% in 2020, compared to 13% for Japan and 10% for the US. This is down from the 2000's when the UK's share of cross-border bank lending stood at 20%.[126]

London's geographic location and time zone has given it a key advantage in foreign exchange and derivatives trading. The UK is by far the leader in foreign exchange trading. 43% of global turnover in the foreign exchange market, worth \$6.6 trillion per day in April 2019, is accounted for in London, up from 37% in April 2016.[127] This is significantly more than the US (17%) and Singapore and Hong Kong (8% each).[128] The UK has been capitalising on this strength, with trading activity in the UK growing 49% between 2016 and 2019, compared to 8% in the US and 27% worldwide.[129]

121. 'Total tax contribution of UK financial services', *City of London* (9 February 2021) https://www.cityoflondon.gov.uk/supporting-businesses/economic-research/research-publications/total-tax-contribution-of-uk-financial-services
122. 'The total tax contribution of UK financial services in 2020', *City of London* in association with *PwC* (5 February 2021) https://www.cityoflondon.gov.uk/assets/Business/total-tax-contribution-2020.pdf
123. 'PAYE and Corporate Tax receipts from the banking sector: 2020', *HM Revenue & Customs* (24 September 2020) https://www.gov.uk/government/statistics/paye-and-corporate-tax-receipts-from-the-banking-sector-2020 ; 'Public financed databank – January 2021', *Office for Budget Responsibility* (28 January 2021) https://obr.uk/data/
124. 'The impact of the UK's Exit from the EU on the UK-based financial services sector', *Oliver Wyman* (2016) https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/OW%20report_Brexit%20impact%20on%20Uk-based%20FS.pdf
125. 'Key facts about the UK as an international financial centre 2020', *TheCityUK* (December 2020) https://www.thecityuk.com/assets/2020/Reports/8716847a2f/Key-facts-about-the-UK-as-an-international-financial-centre-2020.pdf
126. 'Foreign exchange turnover in April 2019: Triennial Central Bank Survey', *BIS* (16 September 2019) https://www.bis.org/statistics/rpfx19_fx.pdf ; 'The foreign exchange and over-the-counter interest rate derivatives market in the United Kingdom', H. Goodacre & E. Razak, Bank of England (December 2019)
127. 'Key facts about the UK as an international financial centre 2020', *TheCityUK* (December 2020) https://www.thecityuk.com/assets/2020/Reports/8716847a2f/Key-facts-about-the-UK-as-an-international-financial-centre-2020.pdf
128. 'Turnover of OTC foreign exchange instruments, by country', Table D11.2, *Bank for International Settlements* (accessed February 2021) https://stats.bis.org/statx/srs/table/d11.2

The global increase in foreign exchange trading has been driven in part by a large increase in FX swap volumes which now constitute 49% of all FX turnover globally, but also by technological change as the shift from voice to electronic trading progresses.[130] Fast-growing FX product include outright forwards, which have seen an increase in trading of 43% globally since 2016, but only by 4% in the UK.[131] The US dollar is the dominant currency status (on one side of 88% of all trades)[132] and the UK handles a large volume of US dollars (2.5 times as much as is traded in the US). It has also emerged as leader in offshore Chinese renminbi trading.[133]

The UK Insurance industry is also globally competitive, and is the fourth largest in the world, behind the US, China and Japan, accounting for 5.8% of global premiums in 2019.[134] The UK insurance market managed investments worth more than £1.8 trillion, paid almost £12 billion in taxes and employed around 300,000 people in 2019 as well.[135] 31% of the UK's financial services exports in 2018 were insurance and pension services, with 67% of these exports going to Europe and 21% to the US. The industry has been forced to undergo consolidation and restructuring over the last five years as a result of Solvency II capital requirements, which has contributed to the number of firms with authorisations to write insurance business falling by around 20% since 2015.[136] Sustained low levels of interest rates have also posed a challenge to the industry.

According to the Investment Association (IA)[137] the UK is the second largest investment management centre after the US, with a 37% market share in Europe in 2018 and assets worth an estimated £9.9 trillion managed in the UK in 2019.[138] The value of assets under management in the UK relative to GDP was over 400% in 2019, the highest level yet.[139] Although the majority of investment management activity occurred in London, it is worth highlighting that Scotland, and Edinburgh in particular, plays an important role nationally. 7% of assets managed in the UK and 20% of assets managed by UK-headquartered investment managers were handled in Scotland in 2019.[140] The UK's extensive network of financial auxiliaries and access to liquid markets have been credited with the success of this sector.[141] A range of measures are being considered by the Government to improve the attractiveness of this sector, including improving the taxation of multi-asset funds and real investment trusts, speeding up the authorisation of mutual funds and qualified investor schemes, and allowing investment in a wider range of asset classes.[142]

With 384 foreign companies listed on the London Stock Exchange Group, it had the sixth highest number of foreign listed companies as of the end of 2019. For comparison, the New York Exchange Group had 505 foreign companies listed and the Singapore Exchange had 257.

129. 'The foreign exchange and over-the-counter interest rate derivatives market in the United Kingdom', *Bank of England* (20 December 2019) https://www.bankofengland.co.uk/quarterly-bulletin/2019/2019-q4/the-foreign-exchange-and-over-the-counter-interest-rate-derivatives-market-in-the-uk

130. 'The foreign exchange and over-the-counter interest rate derivatives market in the United Kingdom', H. Goodacre & E. Razak, *Bank of England* (December 2019)

131. Foreign exchange turnover in April 2019: Triennial Central Bank Survey', *BIS* (16 September 2019) https://www.bis.org/statistics/rpfx19_fx.pdf

132. 'Key facts about the UK as an international financial centre 2020', *TheCityUK* (December 2020) https://www.thecityuk.com/assets/2020/Reports/8716847a2f/Key-facts-about-the-UK-as-an-international-financial-centre-2020.pdf

133. 'Key facts about the UK as an international financial centre 2020', *TheCityUK* (December 2020) https://www.thecityuk.com/assets/2020/Reports/8716847a2f/Key-facts-about-the-UK-as-an-international-financial-centre-2020.pdf

134. UK Insurance and Long-Term Savings: The state of the market 2019', *Association of British Insurers*, https://www.abi.org.uk/globalassets/files/publications/public/data/abi_bro6778_state_of_market_2019_web.pdf

135. 'UK Insurance and Long-Term Savings: The state of the market 2019', *Association of British Insurers*, https://www.abi.org.uk/globalassets/files/publications/public/data/abi_bro6778_state_of_market_2019_web.pdf

136. See submission on Financial Services by the Investment Association https://committees.parliament.uk/writtenevidence/23401/pdf

137. The Investment Association is the trade body for UK's investment managers. 'Investment Management in the UK 2019-2020: The Investment Association Annual Survey', *The Investment Association* (September 2020) https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf

138. 'Investment Management in the UK 2019-2020: The Investment Association Annual Survey', *The Investment Association* (September 2020) https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf

139. 'Investment Management in the UK 2019-2020: The Investment Association Annual Survey', *The Investment Association* (September 2020) https://www.theia.org/sites/default/files/2020-09/20200924-imsfullreport.pdf

140. 'How London grew into a financial powerhouse', *Financial Times* (15 December 2020)

141. 'UK government plans post-Brexit reform of investment industry', C. Flood & E. Agyemang, *Financial Times* (26 January 2021) https://www.ft.com/content/7c916f56-447f-4eac-aa17-1eab3add7ef6

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