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The City of London and Europe

City of London Corporation – who we are and what we do, principles for engagement on EU issues

It is a great pleasure for me, as a representative of one organisation steeped in history but very relevant to the issues of today, to be able to speak in a prominent university that shares the same characteristics. The City of London Corporation is by any standards a strange organisation that would not be created if it did not exist, but which plays an essential role in the Britain's business and political life. It is helpful if I say a few words about who are we and what do we do.

The Corporation is the elected council for the City of London, also known as the Square Mile, the financial district of London. In fact it is the oldest continuous municipal democracy in the world. Although now representing a modern, dynamic financial centre, it has been in existence for over 800 years. I note that your University dates back to 1579 – the Corporation's base in the City of London, the Guildhall, was built in the early 15th century, so we each have a considerable history behind us.

I have been one of the Corporation's elected Members since 2002 and I have been the Chairman of the Policy & Resources Committee, the nearest we have to a political "leader", since 2012. The Corporation is unusual for a public authority in having built up and maintained a substantial portfolio of property and financial assets. The income from these is used to fund a range of services for London and the whole nation, including arts and culture, open spaces, a police force that concentrates on economic crime and hosting events on behalf of the nation. We also have a charity that makes grants of over £20 million to charitable projects in London and we are active in the education and skills field. Within the square mile we pride ourselves on facilitating the construction of modern efficient office space and having outstanding public realm, so that the City is an enjoyable place in which to work.

But the subject for today's speech is the work we do to support and promote UK-based financial and professional services firms, irrespective of ownership. I say specifically "UK based" as London is home to over 250 foreign banks. We work with the industry to engage on the regulatory and policy agendas, and also to promote London as the world's leading international financial and business centre. Of particular relevance to today's speech, we also work to promote London as Europe's international financial centre. And I use the expression "London" rather loosely, as in practice the finance industry is scattered throughout the UK.

We do this in a number of ways: we work with City practitioners and the major financial services trade associations to represent the views of the industry to policy makers, regulators and central bankers. As you would expect, much of this work is undertaken in Brussels, where we have recently increased our presence through the appointment of a former UK Government Minister, Jeremy Browne, to act as the City's Special Representative. We also have a programme of engagement with other Member States, both in London for example through their Embassies but also in their capitals, seeking to identify issues of mutual interest. In terms of influencing the EU regulatory agenda there is much to be gained from a collective approach to the EU institutions, where we can highlight the shared perspective of the wider financial services sector, rather than focusing on a narrow UK angle. Given the scale of European regulatory change in the aftermath of the financial crisis, building alliances across the EU has therefore taken on an increasingly important role in recent years.

The Corporation and Lithuania – City programme

I am pleased to say that this is particularly the case with Lithuania. Less than a year after Lithuania joined the EU, we welcomed a number of delegates to the City from the Finance Ministry and the Bank of Lithuania, among others. They undertook a range of placements across a number of City firms. The City Programme, as it is known, has become a well-established initiative which recently celebrated its ten year anniversary. It has now targeted all of the newer Member States in Central and Eastern Europe and we have already re-visited some of the earlier participant countries including Lithuania. As a result we have established a good range of contacts across the Finance Ministries, Central Banks and regulatory bodies within these countries.

The Corporation also undertakes a regular programme of engagement with the EU Member States as they are about to assume the EU Presidency. The Lord

Mayor at that time, Sir Roger Gifford (who will be joining our panel discussion) and I visited Vilnius in April 2013 to hear about and discuss Lithuania's priorities for its Presidency from your President and senior Government Ministers. We continued to develop our engagement by jointly hosting a conference on European Banking Union with your Embassy in London mid-way through the six-month term.

London's role as Europe's leading international financial centre within a Single European Market– key characteristics/stats, not in the Eurozone – but supportive of its stability/success

I have already referred to the Corporation's role in promoting London as the leading international financial centre. Let me give you a few brief statistics to justify our claims to this position.

- The UK is the leading exporter of financial services across the world. Its financial services trade surplus of $95bn in 2014 was more than twice the next largest trade surplus, recorded by the US.

- Financial assets under management totalled a record £6.2 trillion in 2013, the second largest in the world. Around a third of this was managed on behalf of foreign clients. The UK is also the leading European centre for management of hedge funds, sovereign wealth funds and private equity funds.

- The UK accounts for 41% of global foreign exchange trading. More US dollars are traded in the UK than in the US and more Euros than in the Eurozone. And London is now the leading western centre for RMB trading.

- 500 foreign companies are listed on the London Stock Exchange and AIM, the junior market.

That the City has developed this position reflects a unique combination of circumstances, including an open and welcoming environment in which being British confers no advantage, a globally competitive tax and regulatory regime, a world beating judicial system and the application of the rule of law, the English language, a favourable time zone, and being a great place in which to live and work – in which education and culture play an important part. And, it also reflects British membership of the European Union, allowing banks and other financial institutions based in London to operate throughout the whole of the EU without separate authorisation in each country. I will return to this issue later on.

As the newest participant in the Eurozone, you will be well aware that the UK is not a member. However we support other national governments' efforts to create a "genuine" economic union and recognise the importance of Eurozone stability for economic growth. I understand from past discussions with your Finance Minister just what an important step this was for Lithuania. I am pleased to note that public support for membership remains strong, which I am sure was greatly helped by the smooth transition from the Litas.

Restoring trust in UK financial services sector – Banking Standards Board, FEMR

It will not come as a surprise to you if I say that unfortunately the financial services sector in the UK does not quite share the same level of support at present. The unprecedented recent scandals have undermined the standing of the City. However, there is an acknowledgement that mistakes have been made and that much needs to change as a result. Several high level initiatives have been put in place to try to restore the trust and confidence that has been lost. Capital, liquidity and governance standards have been massively increased, and regulation is now more effective and joined-up. But it has also been necessary to improve standards of conduct.

The Fair and Effective Markets Review was established by the Chancellor in June 2014 to conduct a comprehensive and forward-looking assessment of the way in which wholesale financial markets operate, to help to restore trust in those markets and to influence the international debate on trading practices. Its recommendations were published in June this year. These should help to raise standards, professionalism and accountability of individuals and to strengthen the regulation of Fixed Income, Currency and Commodities markets in the United Kingdom.

Another example is the establishment of the Banking Standards Board, which was launched in 2014, on this occasion following a substantial review of the banking industry. The BSB will be a champion for better banking standards in the UK, working with banks and building societies to define standards of good practice and helping to assess how well they are doing at meeting them. This is an interesting approach which recognises that behaviour can be changed only so far through compliance. Banks which are participating in this voluntary initiative will commit to a programme of continuous improvement in culture, competence and customer outcomes and will report publicly on their performance each year.

The role of financial services in financing Europe's businesses

As you will no doubt be aware wholesale financial markets make a significant contribution to the EU economy by facilitating job creation and business growth. A wide array of companies rely on the wholesale markets to help them to raise the money they need to invest and grow and to help them manage their business risks and achieve efficiency in the way in which they manage their capital. A well-functioning financial system is crucial in unlocking the investment potential that can help business to grow, financing the infrastructure development that keeps Europe competitive, and generating demand in the supply chain through buying goods and services from suppliers.

We have recently commissioned some independent research which has examined two possible future directions for financial services, looking at the wider implications of a regulatory environment that supports sustainable growth for the sector compared with an approach in which there is little or no growth. In the first scenario – with financial services growing at 1.9% a year – Europe's total output grows by an additional €200 billion in the next five years, and €850 billion by 2030, with 11 million new jobs created – mainly in the manufacturing, construction, retail and trade sectors. This work highlights what Europe stands to gain by getting regulatory reform right and supporting sustainable growth; it also demonstrates the benefit of the efficient functioning of trade in services as Europe works towards a single capital markets union, which I will cover in more detail later.

The City and the EU – surveys by TheCityUK, CBI

I would now like to return to the earlier theme of the role of the City of London within the EU and more specifically its place within the Single Market. This is a key element in the continuing success of the City, as many global firms have chosen to head up their European operations from a London base, in part due to the access that it offers to the European Single Market. This issue is now coming increasingly under the spotlight as the UK moves towards its Referendum on continuing EU membership. Since the announcement of a proposed Referendum, back in January 2013, and now confirmed following the results of the recent UK national election, many business sectors have been consulting their memberships for their views on the merits or otherwise of the UK remaining a member of the

European Union. The financial services industry is no exception. The clear message we have had from City business is:

1. Britain needs to be in the Single Market and to influence the rules made for the Single Market: In practice this means being a member of the EU. The Swiss and Norwegian options are not attractive.

2. Britain needs to be better engaged in the EU in order to secure the right policy outcomes, whilst recognising that on financial services issues, Britain has generally been very successful in doing so over the last 20 years.

3. There is no appetite for repatriation of powers in respect of financial services; on the contrary there is a wish to widen and deepen the Single Market in financial services, but this will require additional EU legislation to remove barriers in some areas and we must be honest about that.

4. If Britain left the EU, there would, over time, be a significant transfer of jobs to other financial centres, and a real risk that the EU would become more protectionist.

5. A vote to leave the EU would be followed by perhaps two years of uncertainty as to what Britain's relationship would be with the EU and those countries that have trade agreements with the EU. It is no response to say "they need us more than we need them" or "we would have no difficulty in negotiating satisfactory arrangements with the EU" or "the future is in the Far East" – the situation isn't so simple. While the final outcome might be reasonably satisfactory, the uncertainty that would precede it would be damaging.

To give you an indication of City views on the EU issue, TheCityUK, which represents the whole of the financial services sector, surveyed its leaders of the industry in 2013 and found that 84% wanted the UK to remain a member of the EU. 95% said that access to the Single Market is important for the UK's future competitiveness. In addition, a major exercise by a key business trade body – the CBI - demonstrated a similar position across British industry; 78 % of businesses said they were in favour of Britain remaining in the EU, with 77% of SMEs agreeing with this approach. Leaving the EU would have a negative impact on foreign direct investment according to 75 % of those surveyed.

Perspectives on EU Reform – for the benefit of the EU28 - what are we proposing

Beyond the specifics of individual legislative measures (which could be the theme of a completely separate speech) we do believe however that there is much that can be improved upon within the EU. That is to say we believe there is scope for the EU to reform, but not to the narrow benefit of the UK alone. We believe that any reforms should focus on improvements to the EU which will be of benefit to the EU28. In this context, we very much welcome the new Commission's aim "to be big on big things and small on small things".

Understandably the financial services sector has its own views on what should form part of the reform agenda. TheCityUK has recently produced a series of proposals which it believes could assist the EU to focus on pro-competitive, growth oriented policies, which would be arrived at through the optimum combination of EU and Member States powers and resources. A key focus for these proposals would be to ensure that there is a "renewed focus on a deep and strong Single Market, with fair and equal treatment of all Member States, small and large, both within and outside the euro area". The reform agenda should focus on change which can be delivered quickly, while not losing sight of more long-term and strategic goals. We believe that the most urgent reforms can be achieved within the existing treaty framework and concerted efforts should focus on incremental reform across a broad spectrum of initiatives. The report details 25 principles but I will only highlight a few to give you a flavour of the approach that has been taken:

- Reaffirmed commitment to the completion of the Single Market and more specifically the Single Market for Financial Services
- Development of a Single Capital Market
- Completion of the Digital Single Market
- Mandatory post implementation reviews
- Assessment of the cumulative cost of regulation
- Encouraging long term investment into the EU's economy
- Protecting the integrity of the Single Market
- Transposition and enforcement of European legislation

The UK Government has also placed the integrity of the Single Market at the core of its renegotiation strategy. In a recent speech the Chancellor stressed that although "the single currency is not for all, the single market and the European

Union as a whole must work for all”. A key principle that the government seeks to establish in the renegotiation is “to enshrine fairness between the euro-ins and the euro-outs and to preserve the integrity of the single market”. The City fully endorses this position.

Key focus for the future on jobs/growth for the EU28– shifting away from the regulatory response to the financial crisis - the role of Capital Markets Union

Turning to the EU level, we are also very supportive of the approach adopted by the new European Commission, articulated in particular through the appointment of First Vice President Frans Timmermans to lead on the Better Regulation agenda, together with the focus by Vice President Katainen on jobs/growth. Jonathan Hill, the Commissioner with responsibility for Financial Stability, Financial Services and Capital Markets Union, has reassured the financial services sector by an approach that will ensure there is less new regulation in the future, more focus of bedding-in the reforms of recent years, with an even greater emphasis than before on proportionality. We are also particularly reassured by his willingness to reflect on the cumulative impact of what has been introduced in the past, and to consider adapting the existing framework where it can be demonstrated that it may be working against the Commission’s current priorities of jobs and growth.

The City has welcomed the Commission’s focus on jobs and growth with the development of a Capital Market Union being a key element of this. In particular we recognise the willingness to develop this initiative in tandem *with* the industry, as opposed to previous measures which may have been perceived as being done *to* the industry. In fact I am speaking at a conference tomorrow, which is an initiative of the Lithuanian Finance Ministry, where we will consider the challenges and opportunities for business from a Capital Markets Union. Commissioner Hill is correct when he stresses the importance of a CMU for the EU28 and not just those with well-developed capital markets. He believes that a CMU will in fact be of greater benefit to investors and business in countries which do not have well established financial centres, because a CMU should create conditions for capital to cross borders, to flow to entrepreneurs with high growth potential, wherever they are located in the EU.

I hope that I have demonstrated today that not only is the City fully engaged in the current EU agenda but that it very much views its future in a reformed, more competitive outward looking EU.