

Committee: Policy and Resources	Date: 28 May 2015
Subject: Policy Chairman's visit to New York and Washington DC, United States of America, April 2015	Public
Report of: Director of Economic Development	For Information

Summary

This report advises Members of the outcome of the recent visit by your Chairman to New York/Washington DC from 20 to 22 April 2015. The main purpose of the visit was to meet with business and policy stakeholders (firms, policymakers, regulators and financial institutions) to discuss regulatory and competitiveness issues affecting transatlantic financial markets, as well as gauge views on the business and political landscape in the US, UK and Europe. The visit provided the opportunity to hear about the key issues affecting US business practitioners. A priority remained on conveying key City messages and policy positions, related to transatlantic financial markets, to US counterparts, including advocating greater coordination of international regulatory reforms.

This report includes views gathered on a number of transatlantic political, economic, regulatory and competitiveness issues. Key points are as follows:

- The 2016 US presidential election campaign is already in full swing, which has had some suggestions that President Obama will be a 'lame duck' and raised questions about the appetite of Congress to get any policy work done. Congress is, however, reportedly close to granting the president Trade Promotion Authority, which would free his hand in finalising negotiations on the Trans-Pacific Partnership and to a lesser extent the Transatlantic Trade and Investment Partnership (TTIP).
- There was a lot of interest in the upcoming UK general election and what the result could mean for the UK business environment and particularly the UK's position in the European Union (EU). Businesses expressed that they were developing contingency plans for their operations in case the UK left the EU. There is concern about certain 'anti-business' proposals and statements being made by UK politicians and how this threatened making London/UK a less desirable investment destination.
- The cumulative effect of regulation on the financial services industry is an increasing worry for businesses. The scale of new regulation being implemented by multiple regulatory bodies has increased the compliance workload and cost of many firms, resulting in them paring back operations internationally. There is concern that this is also resulting in a shortage of liquidity stock in financial markets and more capital being pushed to the largely unregulated shadow banking sector.
- Ongoing divergences and conflicts in US and EU regulatory regimes remain an issue for many firms due to the obstacles they continue to pose to cross-border

business in certain areas e.g. the OTC derivatives market. The lack of cooperation and mistrust between regulators on both sides of the Atlantic (and within the US) was seen as a key cause for this that needed to be addressed.

- Your Chairman spoke at a roundtable discussion, hosted by the Brookings Institute, on TTIP, in which he conveyed the importance of financial regulatory coordination being included in the negotiations. The general view from industry is that TTIP would not be finalised until at least 2017, due to both sides still being far from political agreement in several areas. Industry called for the EU, member states and business to continue to push for the inclusion of financial regulatory coordination in the agreement.

The visit is being followed up by further discussions with organisations on a number of the issues raised. The next visit to the US is planned for November 2015.

Recommendation

Members are asked to note the report.

Main Report

Background

1. Members previously approved that your Chairman should visit New York, along with another major US city, twice a year. These visits play an important role in the City of London's programme of engagement with the US and the ongoing dialogue with US-headquartered financial services firms and senior US policymakers on regulatory and competitiveness issues affecting transatlantic financial markets.
2. Your Chairman visited the US from 20-22 April 2015, primarily visiting New York, but also making a brief visit to Washington DC for an event with the Brookings Institute. He was accompanied by the International Affairs Officer for the US. The principal objective of the visit was to discuss regulatory and competitiveness issues affecting international financial markets, especially the coordination of financial regulatory reform.
3. The programme in New York included meetings with senior figures from US and international financial institutions, the Federal Reserve Bank of New York and the British Consulate General in New York. The programme in Washington comprised a roundtable discussion on TTIP with US policy stakeholders, at which your Chairman spoke on the importance of financial regulatory cooperation being included in the agreement. This was hosted by the Brookings Institute and coincided with the 9th round of TTIP negotiations taking place in New York that week.
4. Further details of the visit are set out in this report and a list of meetings is attached in the annex.

Political and Economic Environment

5. During the meetings, views were gathered on the state of the political climate in the US. Your Chairman heard that the 2016 US presidential election campaign is already in full swing, 18 months ahead of polls opening. Several people commented that this was the earliest they had seen a presidential election attract such a high level of interest from the public and media.
6. Your Chairman heard that Hillary Clinton, who announced that she was running for President just a week prior to the visit, would almost certainly be the Democratic presidential candidate and that there was no real alternative in the party. It was noted however that the early start to her campaign, coupled with her history in the State Department, opened her up to attack on all fronts over the coming months. The Republican front-runner is Jeb Bush, who it was claimed is already 'hoovering' up much of the funding. Scott Walker and Marco Rubio were highlighted as other Republicans who could play a prominent role in the primaries, though neither were generally considered serious contenders this time round.
7. Your Chairman heard that the early start to the presidential campaign has given rise to some suggestion that President Obama would now be a 'lame duck', and that there were mixed views on whether Congress had any appetite to get policy work done. It was recognised however that the President in many ways had a freer hand to make deals and could clinch a handful of successes, particularly in relation to trade. Congress was reportedly close to granting the president Trade Promotion Authority (TPA), which would free his hand in finalising negotiations on the Trans-Pacific Partnership (TPP) and to a much lesser extent the Transatlantic Trade and Investment Partnership (TTIP). This progress was attributed in part to the influence of the newly Republican-controlled congress.
8. Your Chairman heard that attitudes towards the financial services industry remain critical in the US. There was some surprise at quite how long this 'toxic' environment had persisted, given the US economy's resurgence. It was the view that the industry had more to do to convince the public, government and regulators on the importance of financial services to the real economy and growth.
9. Your Chairman discussed the UK political climate with counterparts, who showed keen interest in the upcoming UK general election and what the result could mean for the UK business environment and particularly the UK's position in the European Union (EU). Several people expressed surprise about just how close the race was and that the Conservatives did not have more of an advantage, given the current coalition overseeing a perceived strong UK recovery. The general view from business was that the UK will remain in the EU but that they were developing contingency plans for their operations should the UK choose to leave.
10. Your Chairman heard that businesses were generally impressed with the economic activity and investment environment in London. One major

investment institution in particular was very positive on the long-term prospects for London and the corporate property market in particular. They shared that they had significant investments in the City and would continue pursuing investment opportunities in the capital.

11. Despite this, your Chairman heard that businesses were concerned about certain 'anti-business' proposals and statements being made by politicians, especially ahead of the elections, and how this could result in London and the UK 'accidentally' becoming less desirable a destination in which to invest and do business. Anti-immigration/Europe sentiment, high housing costs and the prospect of heightened corporate taxes, levies, fines and regulation generally were all viewed as risks to the competitiveness of London as an international financial centre.
12. Your Chairman heard that the new structure of the Juncker European Commission was considered an improvement that would hopefully facilitate more effective decision-making and information-sharing between Commissioners. Lord Hill, who had recently visited the US, was perceived as sensible, approachable, and keen to cooperate with the US on policy/regulatory initiatives. It was hoped that this approach would filter down to the lower levels of the Commission where there was a tendency for fragmentation and silo working to persist.
13. Your Chairman heard concerns about the potential impact Greece leaving the EU could have on the European economy and the instability this could cause in the region. It was understood however that a 'Grexit' would be less damaging financially than if it had happened a few years ago, given that many corporate investors had already drastically pared back investments and business operations in the country and the banking system was better equipped to deal with shocks.

Regulatory Environment

14. During meetings, views were gathered on the state of the current regulatory environment for the financial services industry. Your Chairman heard that businesses are increasingly worried about the cumulative effect of regulation on the industry, and the activities of banks in particular. The sheer scale of new regulation being implemented in both the US and Europe has drastically increased the compliance workload of the industry in recent months, resulting in a huge rise in compliance cost and effort. In the US, this was blamed largely on the fractured nature of the US regulatory system, characterized by a multitude of disparate regulatory bodies issuing regulation in different areas, with little consideration of the overall effect on business. There was a sense that officials in government and regulatory bodies were beginning to recognise that regulation may have gone too far, but there was scepticism on whether there was any real political will to do anything about it. This echoed the messages of Paul Volcker, who the same week had called for US regulators to be streamlined, including the merging of the Securities and Exchange Commission with the Commodity Futures Trading Commission and the Federal Reserve with the Office of the Comptroller of Currency.

15. Your Chairman heard that the intense US regulatory environment has resulted in firms having to seriously re-assess their business models and pare back operations, business lines and product offerings where the cost of compliance is considered to outweigh business benefit and return on capital is being squeezed. Correspondent banking was highlighted as a prime example of where business has reduced, as banks are no longer willing to go through the strict compliance procedures of opening accounts with counterparties in other jurisdictions. Consumer banking business in international markets was another key area of business highlighted as being pared back by large US and European banks.
16. Your Chairman heard that ongoing divergences and conflicts in US and EU regulatory regimes remain an issue for many firms due to the obstacles they continue to pose to cross-border business in certain areas. The OTC derivatives market, which is inherently international in nature, is a key area affected by this. The lack of cooperation of regulators and the resultant extraterritorial reach of regulatory regimes was attributed to a persistent distrust between regulators (US and EU), and even internally in the US.
17. Your Chairman heard that the restrictive business environment for banks is resulting in a reduced stock of liquidity in international financial markets. This was viewed as a risk to the stability of financial markets, leaving it less able to absorb major shocks. It was noted that the new restrictions on banks had also resulted in more business and capital moving to the shadow banking sector, which was considered an impending risk to investors due to the sector being largely unregulated.
18. Your Chairman heard criticism of the approach global regulators are taking to assess the systemic risk of financial institutions, and particularly the current focus on designating large asset managers as Systemically Important Financial Institutions (SIFIs). It was commented that around 22 regulators around the world were currently investigating the systemic risk of the sector, some of which had little knowledge of how the sector operates and where the risks really lie. Your Chairman heard that asset managers are making efforts to educate officials about the sector as there is concern that, unaddressed, regulatory models established for banks could be imposed on them, which would be unsuitable and damaging to the industry. This was considered a threat to London, given its strength as an asset management hub.
19. On the assessment of financial risk in financial institutions in general, your Chairman heard the view from business that regulators should be paying more attention to the actual products and services provided by an entity, rather than focusing solely on their size. This, it was argued, would better address the risk in businesses by discouraging the tendency of large firms to simply break-up or sell-off pieces of their business to avoid oversight, effectively distributing risk across multiple entities instead of addressing issues.
20. Your Chairman heard that there remained concern over the perceived unending and arbitrary process of regulators issuing fines to banks in both the

US and UK. It was argued that there was a lack of transparency over the degree of fines being issued and that at some point this would become an issue for shareholders, who are actually bearing the brunt of the cost.

21. Your Chairman heard that several large banks were worried about the recently proposed PRA/FCA regulations to enhance the personal accountability of the decisions made by senior bank executives and non-executives. This was due to the potential of such measures discouraging good and experienced candidates from taking on these roles, due to the perceived high risk attached to them.

The Transatlantic Trade and Investment Partnership (TTIP)

22. Your Chairman spoke at a roundtable discussion, hosted by the Brookings Institute, on the Transatlantic Trade and Investment Partnership (TTIP), in which he, along with representatives from Standard Chartered and Paris Europlace, conveyed to US policy stakeholders the importance of financial regulatory cooperation/coordination being included in the TTIP negotiations. This event coincided with the 9th round of negotiations that took place in New York the same week. Ahead of the negotiations, several US and European financial trade associations, including TheCityUK and US Chamber of Commerce, also issued a joint statement reinforcing their strong support for a TTIP that includes financial services regulatory coordination.
23. Your Chairman heard that the general view from business on TTIP was that it would not be finalised until at least 2017, after the new US government administration was in place. It was acknowledged that both sides were still far from a political agreement in several areas and that only 5 of the 25 texts had been completed so far. The EU and the US still disagree on the issue of the inclusion of financial regulatory cooperation/coordination in the agreement, with the EU maintaining its position for and the US against. The US position was seen as stemming from firm opposition on the issue within the US Treasury and Federal Reserve, who continue to point to the US-EU Financial Markets Regulatory Dialogue (FMRD) as the appropriate forum for transatlantic financial regulatory discussion. Industry reiterated its dissatisfaction with the effectiveness of the FMRD, highlighting the recent lack of guidance and direction received in relation to queries/issues concerning Volcker Rule conformance (deadline 21 July 2015), which had left unresolved issues.
24. Your Chairman heard that financial regulatory cooperation/coordination had not been formally discussed since the 5th round of TTIP negotiations and that there was concern among industry that negotiations on this may have fallen by the way-side. The general message from industry was that TTIP was a critical opportunity to get financial regulatory cooperation right and that the European Commission, member states and industry must continue to push for this to set a framework for addressing regulatory divergences that are hindering cross-border business, fragmenting international financial markets, and detracting from global objectives to bring growth to the global economy and stability to financial markets.

Other Issues

25. Your Chairman heard that cybercrime was considered an increasing threat to the financial services industry and firms are deploying an increasing amount of resource to address the associated risks. Firms were glad to see that the US government was taking the threat seriously, referencing recent initiatives proposed by the US administration to prosecute cyber criminals and improve corporate defences.
26. Your Chairman discussed with counterparts the UK's economic relationship with China, and there was interest to learn about the UK's decision to support the newly established Asian Infrastructure Investment Bank (AIIB). There was the view that Europe's strong support of the AIIB was being perceived in the US as due to a decline in US leadership and influence, particularly in blocking reform of the IMF.
27. Following the visit, your Chairman provided a summary of the discussions in a letter to the Chancellor. Follow-up is being undertaken with those he met with on areas of mutual interest.

Corporate & Strategic Implications

28. The visit to the US by your Chairman supported the vision of the City of London's 2013 – 17 Corporate Plan and the strategic aim: "To support and promote The City as the world leader in international finance and business services". It also met the strategic aim of the Economic Development Office: "To support and promote the City as the world leader in international finance and business services, by championing a positive, responsible and competitive business and policy environment, supporting the City's interests in global markets and helping to realise the economic and social potential of London, especially the City and our neighbouring boroughs".
29. The timing of this visit (ahead of the UK general election) allowed your Chairman to gauge US views on the UK business environment in light of the current political climate, as well as clarify points of uncertainty in relation to the election and the potential impact for businesses. This was welcomed by those he met.
30. The next visit of your Chairman to the US is planned for November 2015. There may also be an opportunity for your Chairman to visit the US (Washington) in September 2015 for the US launch of a new report the City Corporation is collaborating on with the Atlantic Council, Standard Chartered and Thomson Reuters, which will assess the status of RMB internationalisation and the impact this may have on transatlantic financial regulation and foreign policy.

Implications

31. In May 2009, Members approved a budget for two visits to the US each year by the Chairman at a cost not exceeding £52,000 per annum to be met from the Town Clerk's existing local risk budgets (including Economic Development

and Public Relations). Travel, accommodation, hospitality and incidental expenses were in accordance with the Business Travel Scheme and totalled circa £11,200.

Conclusion

32. The visit provided valuable insight into the priority issues facing US and international financial services institutions engaged in transatlantic business. Your Chairman was able to deliver the priority positions of the City on regulatory and competitiveness issues to a good mix of stakeholders, as well as transmit the latest developments in the UK and European political, economic and business landscape. Your Chairman met with several long-time established contacts, and established connections with several new ones. These relationships can now be built-on to enhance the engagement the Corporation has with US stakeholders in both the US and UK.
33. The City Corporation will continue to engage with business and policymakers on both sides of the Atlantic, via the International Regulatory Strategy Group (IRSG) and the City's US work programme, to address several of the regulatory and competitiveness issues highlighted in this report, including providing input into ongoing initiatives to improve international regulatory coherence and cooperation.

Appendices

- Appendix – Policy Chairman's US visit meetings: 20 – 22 April 2015

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Appendix: Policy Chairman's US visit meetings: 20 – 22 April 2015

- Roundtable with politicians/firms on UK/US political and economic climate, hosted by Sir Peter Westmacott, British Ambassador to the USA and Danny Lopez, British Consul-General New York
- Roundtable with politicians/firms on transatlantic business environment, hosted by HSBC
- Roundtable on TTIP financial services cooperation with Paris Europlace and Standard Chartered, hosted by the Brookings Institute
- Alberto Musalem, Executive Vice President of the Emerging Markets & International Affairs Group, Federal Reserve Bank of New York
- President's Office, New York City Economic Development Corporation
- Peter Grauer, Chairman, Bloomberg LP
- Barbara Novick, Founder & Vice Chairman, BlackRock
- Ken Caplan, Global Chief Investment Officer, Blackstone
- Bill Mills, CEO of North America, Citigroup
- Patrick Burke, CEO America, HSBC
- Heather Koenig, Global Chief Regulatory Counsel, Head of Office of Public Policy & Regulatory Affairs at BNY Mellon
- Gary Lynch, Global General Counsel and Head of Compliance and Regulatory Relations, Bank of America
- John Medel, Executive Director of Government Affairs, Goldman Sachs
- Mitch Ackles, President, Hedge Fund Association
- Kathryn Wylde, President and CEO, Partnerships for NYC
- Ben McLannahan, US Financial Correspondent, Financial Times