

Committee: Policy and Resources	Date: 19 October 2015
Subject: Policy Chairman's visit to Washington DC, United States of America, September 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 Washington DC from 17 to 18 September 2015. The purpose of the visit was to meet with senior US policy and business stakeholders to convey messages of the City and discuss key regulatory and competitiveness issues affecting transatlantic financial markets. Key meetings included: senior representatives of US congressional committees (financial services-related), regulators, firms, associations, think tanks, US-headquartered international development organisations and the British Embassy.

The political situation in the US and UK was of high interest in meetings, highlighted by the US presidential election campaign, the UK Labour Party leadership election, and the looming EU referendum in the UK. On the regulatory front, interlocutors reiterated concerns about the scale of new regulation hindering business on both sides of the Atlantic, and the need for a more holistic and cooperative approach by rule-makers to ensure regulation is measured and internationally coherent. Your Chairman also had the opportunity to discuss the RMB's internationalisation and recent volatility in China's financial market at the US launch event for the Atlantic Council's new report 'Renminbi Ascending: How China's Currency Impacts Global Markets, Foreign Policy, and Transatlantic Financial Regulation', which was developed in partnership with the City of London Corporation, Standard Chartered and Thomson Reuters.

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 February 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 Washington D.C. from 17 - 18 September 2015. 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 Washington included meetings with senior representatives of US congressional committees (financial services-related), the Commodities and Futures Trading Commission, the International Monetary Fund, the International Finance Corporation, and the British Embassy, as well as firms, associations and think tanks. Your Chairman also spoke at the US launch event of the Atlantic Council's new report on the Chinese currency - 'Renminbi Ascending: How China's Currency Impacts Global Markets, Foreign Policy, and Transatlantic Financial Regulation' - which was developed in partnership with the City of London Corporation, Standard Chartered and Thomson Reuters.
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 in full swing. The visit coincided with the second televised Republican Party presidential debate, which had attracted a lot of attention in Washington and was a key talking point in meetings. Views on who would likely be the Republican and Democratic presidential candidates had shifted quite significantly since the previous visit in April, just five months earlier. Jeb Bush and Hillary Clinton, who were then widely considered stand-out frontrunners for nomination, are now being seriously challenged within their parties.
6. On the Republican side, your Chairman heard that Bush and other candidates are now trailing behind Donald Trump, whose anti-illegal immigrant positions have received enthusiastic support. There were mixed views however on whether he was a real contender for the nomination come voting time. Many thought it inevitable that Trump's appeal would eventually fade as discussions become more policy focused, and well-positioned candidates, such as Marco Rubio, Carly Fiorina or Ted Cruz, could stand to benefit from this. Others, however, had the view that Trump had as good a chance as any, arguing that his anti-establishment stance had revealed real weakness among his fellow candidates and the Republican Party as a whole.
7. On the Democratic side, your Chairman heard that Bernie Sanders, the senator from Vermont, is posing a serious challenge to Clinton, attracting wide support for his critiques on income inequality and big money politics. The perceived mismanagement of Clinton's recent email scandal, along with her perceived lack of connection with voters, were viewed as contributing to

difficulties with her campaign. Indeed, it was commented that the rise of the more extreme left and right candidates within both the Democratic and Republican parties, respectively, reflected strong anti-establishment sentiment among voters and general dissatisfaction with the state of US politics. This, it was recognised, mirrored political developments throughout Europe, particularly in the UK where Jeremy Corbyn had just been announced as leader of the Labour party.

8. Your Chairman heard that the high-level of attention on the 2016 presidential campaign has reinforced views that there is no real appetite in Congress to get significant policy work done. It was recognised however that the President now had a freer hand to finalise trade deals having recently being granted Trade Promotion Authority (TPA) by Congress. It was the view however that the focus of the administration is on concluding negotiations for the Transpacific Partnership (TPP), and that the Transatlantic Trade and Investment Partnership (TTIP) would make significant progress only following this, and almost certainly after the new administration is in office.
9. Your Chairman heard that US attitudes towards the financial services industry remain sour and that this has made tackling the issue of regulatory relief for financial services difficult politically, particularly as popular politicians such as Elizabeth Warren have been vocal on the need for tighter rules on banks. This difficulty was illustrated by the recent lack of success in Republican-led efforts to 'water down' Dodd Frank legislation. Industry is similarly afraid to speak-up on the issue of relief due to the potential backlash, and reported that they feel they are on the defence on all fronts, with all regulatory asks being constantly rebuffed. This has left them uncertain on how to proceed and it was suggested there was now a greater need for associations to educate and raise awareness of the importance of financial services to the real economy.
10. There was a particularly high-level of interest in UK politics on this visit, largely driven by Jeremy Corbyn's recent election as Labour Party leader receiving a high degree of media coverage in the states. Interlocutors were keen to understand the drivers behind his decisive election win, the policy positions he represented and what this could mean for the UK political and business environment over the coming years. There was also keen interest in the 'surprise' result of the UK general election earlier in the year and the priority positions of the Conservative Party, including the EU referendum situation in the UK.
11. Your Chairman heard that it is strongly in the interest of US business for the UK to remain in the EU. There was growing concern that the UK could 'sleepwalk' out of the EU, making the UK a less desirable destination in which to invest and do business. There was some confusion over what the UK government hopes to get from negotiations on reforms with the EU, and it was commented that the UK's response to the ongoing refugee crisis could further damage its bargaining power and reputation among EU peers.
12. Your Chairman heard from businesses that London's success is built on mobility and open doors, and that a growing 'Fortress Britain' mentality posed

a threat to the UK's future competitiveness. There were concerns about UK government efforts to reduce skilled non-EU migration (including US) into the UK, which it was claimed could hurt their operations and potentially damage the UK's business climate. High housing costs, and the challenges it poses to talent availability, was also highlighted as a key risk to London's competitiveness as an international financial centre.

13. Your Chairman heard much praise for the structure and operation of the new Juncker European Commission. Lord Hill was viewed to have been highly effective to date as the Commissioner for Financial Stability, Financial Services and Capital Markets Union, with his efforts on the Capital Markets Union project and his open engagement with the US on various issues receiving particularly high praise.

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 there is ongoing concern about the growing regulatory burden on the global financial services industry, and the negative impact this is having on business and the real economy. It was reported that the high volume of new regulation implemented in both the US and Europe has drastically increased compliance costs and effort for the industry, which has resulted in firms paring back operations and product offerings. Correspondent banking was highlighted as a prime example where business has reduced. Interlocutors in Congress emphasised that it was the small and medium-sized enterprises that have been hit hardest by this environment, owing to their difficulties in raising finance, which has contributed to the tepid US economic recovery. The IMF shared that they have been trying to assess the overall impact of new regulatory reforms on the economy but have found this to be a challenging task. It was noted that officials in government and regulators are increasingly acknowledging that regulation may have gone too far but that the political environment has made it difficult for any action to be taken.
15. Your Chairman heard that the intense regulatory environment for banks is raising concerns about reduced liquidity in financial markets, particularly the global bond market. The liquidity of global debt markets has become a hot topic over the past year, with economists and the heads of various firms warning that this could leave markets less able to absorb major shocks and could trigger or exacerbate a financial crisis. Industry welcomed the recent report by PwC analysing the deteriorating bond market trading conditions, which urged regulators to ameliorate a liquidity crunch by revisiting parts of the post-financial crisis supervisory framework.
16. Your Chairman heard that persistent divergences in areas of US and EU financial regulation/reform continue to pose issues for many firms engaged in cross-border business due to the resulting burden of having to deal with duplicate, extraterritorial and conflicting regulatory requirements from both regimes. Such divergences were attributed to the poor cooperation and coordination of US/EU regulators in forming and implementing reforms. Firms

also reiterated their dissatisfaction with the effectiveness of the US-EU Financial Markets Regulatory Dialogue (FMRD) to date in addressing such issues.

17. On TTIP, your Chairman heard that the EU and the US still disagree on the point of including financial regulatory cooperation/coordination in the agreement, with the EU maintaining its position for and the US against. Despite this, it was noted that in recent months the US side has been more open to discussing the possibility of developing a stronger FMRD, outside of TTIP, to better address US-EU regulatory frictions. Several industry representatives, however, warned against the EU accommodating/accepting this diversion of focus at the current time, arguing that TTIP negotiations were now at a critical stage and that TTIP still presented the best opportunity to get US-EU regulatory coordination in financial services right.
18. Your Chairman heard that the OTC derivatives market, which is inherently international in nature, is a key area where EU-US divergences in rules and standards persist, particularly in approaches to margin rules and recognition of clearing houses and trading platforms. During his meeting with the Chairman of the Commodities and Futures Trading Commission (CFTC), your Chairman was assured that the CFTC is working closely with EU counterparts to harmonise rules/standards and that good progress was being made. It was acknowledged however that there was still work to do to bring both sides closer together.
19. There was keen interest in regulatory developments in the EU, particularly the progress on the Financial Transaction Tax (FTT) and the likelihood of a deal being finalised. The previous weekend had seen renewed focus on the FTT with discussions taking place around the Eurogroup meetings. Whilst the Germans and French were seen to be actively pushing for a deal, your Chairman heard mixed views on whether there was real political will and momentum to get a deal done between the countries signed up to the concept, yet alone the twenty-eight Member States.
20. Interlocutors were interested to understand the current situation at the Financial Conduct Authority (FCA) in the UK, following the recent departure of Martin Wheatley as CEO. There was the view that the FCA has been a difficult regulator to work with in the UK and that it lacked a cohesive overarching strategy. Your Chairman heard that a key issue with the FCA was that it had been pigeon-holed as retail-only and that it needed more wholesale market expertise to be effective. It was hoped this situation would be remedied with the appointment of a new head.
21. Your Chairman heard that there remained concern over the perceived arbitrary process of regulators issuing institutional fines to banks in both the US and UK, and how this approach was only really punishing shareholders. It was commented that the Tom Hayes trial in the UK (Libor scandal) had received a lot of attention in the US and would likely lead to more scrutiny of the individuals involved in financial crime.

22. Your Chairman heard that cybercrime is considered a rising threat to the financial services industry, one that firms, regulators and policymakers are all paying close attention to. Firms were positive about the close cooperation of the US and UK governments in tackling the issue, and welcomed the announcement the same week that the City of London Police, Manhattan District Attorney and Center for Internet Security (CIS) were jointly establishing the Global Cyber Alliance (GCA), an international, cross-sector, non-profit organisation designed to confront, address, and prevent malicious cyber activity through the establishment of a strong network of cyber experts and sharing of key information.

Foreign Relations

23. Your Chairman spoke at the US launch event of the Atlantic Council's new report on the Chinese currency - 'Renminbi Ascending: How China's Currency Impacts Global Markets, Foreign Policy, and Transatlantic Financial Regulation' - which was developed in partnership with the City of London Corporation, Standard Chartered and Thomson Reuters. This report examines the increasing role played by the currency in international payments and global finance, and advocates a measured policy response to the currency's availability, including stronger macroprudential and regulatory protections, proactive multilateral engagement, and heightened involvement by private market participants in the process of Chinese capital account liberalisation. Drawing on the City's strong engagement with China and efforts in promoting increased levels of RMB business in London, your Chairman discussed, alongside a panel of leading RMB/China policy experts, key issues surrounding the RMB's internationalisation, as well as views on the recent volatility in China's financial markets. Set in the context of President Xi's then imminent visit to the US, the event was extremely well received and successfully rounded off the global roll-out of the report, which included launches in London, Brussels, Hong Kong and Singapore earlier in the year.
24. During the event and other meetings, your Chairman heard the view that, while there were significant short-term economic challenges for China, there was also reason for optimism about the country's long-term growth. The recent devaluation of the currency was considered by several commentators as being predominantly motivated by a desire for it to be included in the IMF's special drawing rights (SDR) and would therefore promote further internationalisation of the currency even if it represented a short-term economic setback. It was commented that the devaluation had provoked a disproportionate response from financial markets, given that China still has significant currency reserves, desires currency stability, and is beginning to liberalise its capital account. It was argued that the devaluation was actually a sign of the RMB's ascendance in global payment systems, though it was cautioned that the currency's inclusion in SDR should be accompanied with further regulatory reforms. There was a strong view that the process of RMB internationalisation is a long one that the Chinese government will try to manage carefully, and that China is likely to play an increasing role in financial systems both regionally and globally.

25. The US relationship with China was a prominent discussion topic in meetings. Your Chairman heard that US-China relations are inherently complicated due to their historic tensions and the multitude of sensitive issues the two nations have to navigate, ranging from security to trade. There was a sense that the US still largely views China's rise with suspicion and a challenge to its political and economic leadership in the world. As such, several people were of the opinion that economic issues would likely take a back seat to issues such as cybersecurity, the South China Sea and climate change during President Xi's visit to the US. Your Chairman heard that, in many ways, the US's preoccupation and difficult relationship with the Middle East had negatively impacted its approach to foreign engagement in recent years, including its openness to strengthening relations with China.
26. The US nuclear deal with Iran was an issue of high attention in Congress – just a few days before the visit Senate Democrats had blocked a Republican resolution to reject the six-nation accord (US, UK, France, Germany, Russia and China) that had been recently announced with Iran. The Republicans your Chairman met in Congress voiced strong disapproval of the deal and were keen to understand the UK and other European positions towards it, particularly sentiment of the business community.

Corporate & Strategic Implications

27. 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".
28. The timing of this visit allowed your Chairman to update interlocutors on current political environment in the UK, particularly the dynamics and implications of the recent election of Jeremy Corbyn as Labour Party leader. This was welcomed by those he met.
29. The next visit of your Chairman to the US is planned for February 2016.

Implications

30. 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). This was a relatively short visit and travel, accommodation, hospitality and incidental expenses were in accordance with the Business Travel Scheme and totalled circa £11,000.

Conclusion

31. 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.

32. 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: 17 – 18 September 2015

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

- Roundtable discussion with Financial Services Forum and member firms
- Launch event for Atlantic Council report 'RMB Ascending: How China's Currency Impacts Global Markets, Foreign Policy, and Transatlantic Financial Regulation'
- Timothy Massad, Chairman, CFTC
- Congressman Jeb Hensarling, Chairman of House Committee on Financial Services
- Senator Bob Corker, Chairman of Senate Committee on Foreign Relations, Member of Senate Banking Committee
- Senator Richard Shelby, Chairman of Senate Banking Committee
- Ken Bentson, CEO, SIFMA
- Steve Field, UK Executive Director, IMF
- Anshul Krishan, IFC Chief of Staff, and Directors of IFC Treasury & Syndication
- James Kariuki, Counsellor for Global and Economic Policy, and Benedict Wagner-Rundell, First Secretary (Economic), British Embassy Washington D.C.
- Marc Jarsulic, Vice President of Economic Policy, and Ken Gude, Senior Fellow, Center for American Progress
- Simon Rosenberg, President/Founder of NDN
- Jon M. Huntsman, Jr., Chairman, and Dr. Chris Brummer, C. Boyden Gray Fellow, Global Business and Economics Program, Atlantic Council
- Dr. Jin Zhongxia, Executive Director for China, IMF
- Dr. Wenjian Fang, Executive Vice President, Bank of China New York
- Abel Clark, Global Managing Director, Thomson Reuters
- Shuang Ding, Chief China Economist, Standard Chartered
- Matthew Kulkin, Partner, Steptoe & Johnson LLP