

Committee: Policy and Resources	Date: 17 March 2016
Subject: Policy Chairman's visit to New York, USA, February 2016	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 on 1 to 2 February 2016. The purpose was to meet with business and policy stakeholders to discuss regulatory and competitiveness issues affecting transatlantic financial markets, as well as gauge US views on the business and political landscape in the US, UK and Europe. The political situation on both sides of the Atlantic as well as developments in the financial business environment influenced many points of the discussion.

The political situation in the US and UK was of high interest in meetings, highlighted by the US presidential election race and the looming EU referendum in the UK. It was noted that US attention on the presidential elections has stalled policymaking across the board. On the regulatory front, interlocutors reiterated concerns about the scale of new financial regulation hindering business in the US and Europe, and the need for more coordination/cooperation of US/EU rule-makers to address issues stemming from financial regulatory divergences. Developments in fintech, renminbi (Chinese currency) business and green finance were viewed as exciting areas of future growth in the UK and US, and areas where further cooperation between London and New York would be fruitful.

The visit is being followed up by further discussions with organisations on a number of the issues raised.

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 New York from 1 – 2 February 2016. He was accompanied by the International Regulatory Affairs Officer covering the US. The purpose was to meet with business and policy stakeholders to discuss regulatory and competitiveness issues affecting transatlantic financial markets, as well as gauge US views on the business and political landscape in the US, UK and Europe.
3. The programme in New York included meetings with senior representatives of financial institutions, the Federal Reserve Bank, New York Government agencies, the British Consulate General and financial business/policy groups. Further findings/details of the visit are set out in this report and a list of meetings is attached in the appendix.

Political Environment

4. US attention is focused on the 2016 presidential election race and the visit coincided with the first Democratic and Republican party caucuses in Iowa – a key milestone in the campaign calendar where the first votes are cast for each party's presidential candidates. Ted Cruz received the most votes on the Republican side, followed closely by Donald Trump and then Marco Rubio. There was some surprise at Trump losing out on first place, given the momentum he had gained in recent months. Of most interest, however, was how well Marco Rubio did, with many commenting that his campaign would only be boosted by this. On the Democratic side, Hillary Clinton narrowly beat

Bernie Sanders, which for many demonstrated how close the competition will be and the troubles that continue to plague the Clinton campaign.

5. The business community is seriously concerned about the prospect of Trump and Sanders winning their respective party's presidential nomination, and the ultimate presidency. There was surprise that these extreme right and left candidates had gained such support over the past months, though it was recognised that this reflected the increasing anti-establishment sentiment of voters, dismayed with current US politics and its inability to address worries stemming from the fragile economy and increasing inequality.
6. There were mixed views on the recent news that Michael Bloomberg was considering entering the presidential race. There was the view that Bloomberg would only enter the race if he was certain he had a chance of winning and that would mean only running if Hillary Clinton is not the Democratic presidential nominee. Some commented that Bloomberg may have a good chance of winning if he could inspire voters with his 'self-made man' story and string of public and private achievements. Others questioned how much of a following he could muster, arguing that Bloomberg's entry would represent a swing to the centre in an environment that was already pulling support to the extremes.
7. There was a high-level of interest in the EU referendum in the UK and Brexit debate. It was recognised however that the issue is still relatively low profile in the US. Interlocutors were keen to understand the likelihood of the UK leaving the EU and what the consequences might be for business and London as an international financial centre. The general sentiment was that the UK would remain in the EU but it was noted that US businesses were assessing the risks associated with a Brexit and considering how European operations could be best reconfigured. The businesses the Chairman met with were all strongly in support of the UK remaining in the EU, noting that a Brexit would detract from the UK's proposition as the 'gateway' to Europe, making it less desirable a destination in which to invest and do business.
8. There was the view that the US-UK special relationship seems to be in decline due to increasingly diverging interests of the two nations. This was seen as largely being due to the US becoming increasingly inward facing and reluctant to embrace key shifts on the world economic stage. The UK's growing relationship with China, and particularly its decision to support the Asian Infrastructure Investment Bank (AIIB), was highlighted as an example of where divergences in opinion had already given rise to tensions, and it was the view that similar episodes would likely become more frequent in the future, particularly given the current presidential candidate roster. This was a valuable insight and will inform our ongoing work and engagement with stakeholders in China.

Policy and Regulatory Environment

9. There was the view that US focus on the presidential elections has stalled US policymaking across the board and that there will not be significant progress on key policy initiatives in the coming year, as policymakers steer clear of addressing new or divisive issues/initiatives until some certainty is established over the objectives of the new administration. US attitudes towards the financial services industry remain sour, as demonstrated by the rising support for politicians such as Bernie Sanders and Elizabeth Warren and their 'anti-bank' positions. As such, there is no political appetite to pursue regulatory relief for the financial services industry, and the industry itself is still struggling to get its voice heard on regulatory issues.
10. It was noted that there are currently several senior vacancies within the financial regulatory agencies, particularly the Securities and Exchange Commission and Federal Reserve, which President Obama will have difficulty finding appointments for in the final months of his tenure. It was expected that this would put further strain on regulatory resources in the coming year, resulting in less regulatory activity and response to industry queries.
11. There is ongoing concern about the growing regulatory burden on the global financial services industry. It was noted that officials in government and regulators increasingly acknowledge that regulation may have gone too far but that the political environment has made it difficult for any action to be taken. There was a high-level of interest in the European Commission's recent consultation/call for evidence on the cumulative impact of regulation and what action this could

potentially result in. There was a general view that this would unlikely lead to the trimming back of regulation but rather the containment of initiatives already being worked on.

12. Divergences in key areas of US and EU financial regulation/reforms 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. Firms reiterated their dissatisfaction with the effectiveness of the US-EU Financial Markets Regulatory Dialogue (FMRD) to date in addressing such issues. This is a key issue for City businesses and a matter for further discussion for the City's International Regulatory Strategy Group (IRSG).
13. Derivatives regulation is a key area where such US-EU difficulties persist, particularly in approaches to margin and equivalence recognition of clearing houses and trading platforms. It was noted that cooperation between the US Commodities and Futures Trade Commission and the European Commission seem to have improved in the past year, with both sides showing greater commitment to harmonising rules/standards. There was some hope that an agreement may be reached soon on clearing house recognition, driven by the looming EMIR deadline. It was argued however that three years of negotiations to get to this stage was far too long and more needs to be done by the US and EU to address such third country issues in a more efficient way.
14. The threat of cybercrime is an increasing concern of the financial services industry and the large firms the Chairman met with shared that they are investing heavily to improve the security of IT infrastructure. It was recognised that governments and regulators in the US and EU are taking the cybersecurity issue increasingly seriously, which was highlighted by various initiatives in the works to set security/data standards and rules for compliance for the industry. There was some concern, however, that these initiatives are not adequately joined-up and that what industry needs is a more global approach to cybersecurity standards to avoid difficulties that would arise from jurisdictional differences. This will help inform ongoing work of the City in this area, including the IRSG, which tracks developments in cyber and data policy/standards in Europe, and the City of London Police, which plays a leading role in tackling cyber and economic crime in the UK.
15. There was a generally positive reception to the appointment of Andrew Bailey as CEO of the Financial Conduct Authority (FCA) in the UK. During previous visits, several US firms had made clear their frustration with the operations of the FCA, and there was the sentiment that the new appointment would drive a positive change in the FCA's approach to strategy and engagement with industry. There was some interest on what this would mean for the leadership for the Prudential Regulatory Authority and who a suitable replacement for Andrew Bailey might be.
16. There was some concern about the increasing cost of doing business in London, particularly in terms of office rentals and the cost of living for employees / entrepreneurs. It was noted that London, as with New York, is suffering from a drastic shortage of affordable housing, which could damage the competitiveness of the city. Businesses commented that London's success is built on mobility and open doors, and expressed concern about UK government efforts to reduce skilled non-EU migration (including US) into the UK. This was viewed as an obstacle to bringing much needed foreign talent to the UK and at odds with UK government objectives to boost entrepreneurship and innovation. Despite this, London was still largely viewed as the best place in the UK/Europe for foreign firms to be based.

Trade Agreements

17. Although positive on a deal being agreed on the Trans-Pacific Partnership (TPP) last year, most interlocutors had the view that the TPP would run into problems in Congress, which would substantially delay its course. There was also concern about what Hillary Clinton (yet alone Bernie Sanders) might do with the agreement should she be in the White House, given reservations she has expressed about various elements of the deal.
18. On the Transatlantic Trade and Investment Partnership (TTIP), the general view was that there would not be an agreement until at least 2017, after the new administration is in place. There was also pessimism about regulatory cooperation in financial services being included in the deal, given the strong opposition from the US side. Interlocutors however expressed that it was important for the EU and industry to continue to push for a solution within TTIP.

Renminbi (RMB) business

19. The Chairman was briefed by Bloomberg on the newly formed US Working Group on RMB Trading and Clearing, a private-led (financial sector) initiative that seeks to develop capacity in the US for the trading and clearing of RMB. Bloomberg has been instrumental in coordinating this, with Michael Bloomberg serving as chair for the group. Mary Schapiro (former chairman of the SEC) serves as Vice Chair and Thomas Donohue (president and CEO of the US Chamber of Commerce), Timothy Geithner and Henry Paulson (both former US Treasury Secretaries) are also involved. The seniority of participants shows that US industry is now taking its financial relationship with China and the RMB seriously.
20. The Group currently comprises nineteen members representing the financial services industry and the inaugural meeting took place on 20 January 2016. Work is at an early stage and the Group is looking to follow the model of the City of London's RMB initiative, which was praised for its success, structure and transparency of information. The Group is well resourced, with Promontory leading the delivery of the project, and there is strong cooperation with the US Chamber of Commerce. An initial timeframe of six months has been set to analyse the needs of the US market and determine what action should be taken next. The Federal Reserve also shared that it is doing its own separate work on US RMB trading and clearing, which was very much driven by the increasing interest being seen in the private sector. It is working with the People's Bank of China.
21. The US initiative has unashamedly drawn on the London initiative and there is clearly a desire to work closely with London and share experiences. The City of London views this as positive and will look to cooperate where appropriate. The development of US RMB business will only benefit the internationalisation of the RMB, which will benefit business in London.

Fintech

22. The Chairman met with several leading figures in the New York Fintech community, who were positive about the leadership of London and New York driving the development of the Fintech sector. It was recognised that there is already a lot of communication/collaboration between both Fintech scenes, which has been helped greatly by the initiatives of UK Trade and Investment and other advocate groups to share experiences, promote opportunities and facilitate networking on both sides of the Atlantic e.g. trade missions, international events and other outreach.
23. London was praised for providing a coherent 'Fintech story' and demonstrating strong public and private support for the industry's development. This was seen as a major draw for entrepreneurs to London. This was encouraging given the City of London's ongoing efforts to support the development of London's Fintech sector, including support for Innovate Finance, the UK's industry body that aims to accelerate the UK's position as a leading global hub for Fintech. The biggest challenge for London (and the UK) was seen to be its relatively less developed entrepreneur/venture capitalist eco-system i.e. where seasoned entrepreneurs invest back into the start-up community, contributing to a continuous cycle of innovation. It was commented that this ecosystem could only be developed with time/experience, and that Silicon Valley is strong in this area particularly due to its long history in tech and innovation.
24. It was recognised that the rise of Fintech will pose a key challenge for regulators as they attempt to keep up with technological developments and strike a balance between protecting consumers and allowing the industry to grow and contribute to the economy. It was also recognised that traditional financial services providers, which are highly regulated, will increasingly be challenged by new Fintech entrants into their sectors, and it will therefore be important for regulators to ensure all players are competing on a level playing field.

Green Finance

25. The banks the Chairman met with were interested to hear about the City of London's new 'Green Finance Initiative' and considered this an important and timely development, given increasing political momentum to promote green and sustainable business, highlighted by the global climate change deal agreed at the COP21 in Paris. JP Morgan and HSBC shared their experiences in

growing their green bond businesses in the US, recognising that the green market is currently still tiny but has huge potential to grow. It was commented that there is already huge investment appetite for green bonds but not enough global issuers. It was the view that for the market to go 'mainstream' globally, governments and other stakeholders will need to agree on common principles of what constitutes green and ensure transparency of information so that investors can gain confidence in the market. Both banks committed support for the new initiative, which will comprise 20 member institutions plus the Bank of England, HM Treasury (HMT) and Department of Energy and Climate Change (DECC) as observers. The initiative's immediate focus will be to publish key performance indicators for the UK's green finance sector; to quantify market obstacles and opportunities; and to demonstrate how cities and municipal authorities are and will continue to play a leading role in developing green financial markets. Policy proposals will be presented to HMT and DECC in due course, and, where relevant, green finance will feature as a key theme in future overseas visits by the Lord Mayor, Policy Chairman and Sir Roger Gifford (chair of the Green Finance Initiative).

Corporate & Strategic Implications

26. 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".

Implications

27. 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

28. 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.
29. 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 – Meetings: 1 – 2 February 2016

Contact:

Jean-Paul Larché
International Regulatory Affairs Officer, Economic Development Office

T: 020 7332 3968

E: jean-paul.larche@cityoflondon.gov.uk

Appendix: Meetings: 1 - 2 February 2016

- Roundtable discussion with financial services practitioners hosted by Dan McCardell, COO, The Clearing House Association and Payments Company
- Roundtable discussion with political commentators and financial services practitioners at British Residence in New York – hosted by Martin Cook, UK Director of Trade & Investment, USA, and Deputy Consul General of New York
- Alberto Musalem, Executive Vice President, Head of the Integrated Policy Analysis Group (IPA), Federal Reserve Bank of New York
- Kathryn Wylde, CEO and President, Partnerships for New York City
- Maria Gotsch, President and CEO, The Partnership Fund For New York City
- Jim Aramanda, CEO, The Clearing House Association and Payments Company
- Euan Robertson, COO, New York City Economic Development Corporation
- Peter Grauer, Chairman, Bloomberg
- Kevin Sheekey, Head of Government Relations and Communications, Bloomberg
- Bill Mills, CEO of America, Citigroup
- Marilyn Ceci, Head of Green Bonds, J.P. Morgan
- Hans-Ole Jochumsen, President, Nasdaq
- Wenjian Fang, Executive Director, Bank of China
- Apratim Chakravarty, Managing Director, Head of Offshore Asian Product Distribution, HSBC
- Kurt Vogt, Managing Director, Capital Financing, HSBC
- Peter Curley, Managing Director, Promontory Financial Group
- Peter Matheson, Managing Director, International Policy & Advocacy, SIFMA
- Jon Zanoff, Founder, Fintech Startups and Empire Startups / Director at Blackrock
- Gareth Jones, Founder of Fintech Collective