

Committee: Policy and Resources	Date: 15 December 2016
Subject: Policy Chairman's visit to New York and Washington DC, November 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 and Washington DC in November. 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 following the EU referendum and US presidential election. The visit was built around an invitation to participate in a panel discussion on Brexit organized by the centre for the Study of Financial Innovation.

The main conclusions from the visit were:

- It is still too soon to form any detailed view of the likely policies of the Trump administration, nor clarity of his influence in the transition team.
- There was no clear sense among US stakeholders of how the UK government can make a success of Brexit and curiosity at the approach being taken.
- There is no consistent view from the New York business community in relation to major financial institutions' plans for relocating or restructuring following Brexit. Some expect a "botched job" that is not optimal but also not disastrous. One point that was raised as a priority however was the need for a workable visa system to allow access to talent for firms.
- There will be a number of significant regulatory appointments in the US.
 - There is provision for the Federal Reserve to have a Vice Chairman for regulation. This post has not been filled, as a result of which member Dan Turillo has had this role de facto and has taken a hard line on some aspects of regulation. The Vice Chairman post will probably be filled, leading to a different approach on banking regulation.
 - The SEC will have a three two Republican majority, which is likely to lead to a watering down or several aspects of Dodd Frank that come within the responsibility of the regulator.
 - There may be some changes to the primary legislation but these are likely to be relatively minor.

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. The visit followed the Chairman's last visit in February 2016.

2. Your Chairman visited New York on Friday 18 November and Washington DC from Saturday 19 November to Monday 21 November, accompanied by the Head of Regulatory Affairs, Ben Stafford. The purpose was to meet with business and policy stakeholders to discuss the economic and political environment in the UK and EU following June's referendum vote, as well as to gauge views on the likely direction of travel following Donald Trump's presidential election victory. The visit was built around an invitation to participate in a panel discussion on Brexit organized by the centre for the Study of Financial Innovation, held in New York on 18 November.
3. The programme included meetings with senior representatives of financial institutions, the British Embassy and British Consulate General, and policy and political advisors. Details of the individuals and organisations met during the visit are provided in the appendix.

Political Environment

A Trump presidency

4. There was still a sense of surprise at the US Presidential election outcome throughout meetings in both cities. Guests at the NY Consulate meeting speculated that US markets' positive reaction to the vote may reflect the expected large investment on infrastructure promised by President-elect Trump, as well as the possible impact of moves to dilute US banking regulations and the increased availability of capital this may provide.
5. Even among election strategists present who had worked on the campaign, there was no clear view of the likely suite of policies he will bring in. Some speculated that the "real" Trump is likely to be more pragmatic than ideological, whereas others noted the strength of his words on US international trade, China, Iran, Israel and the US's position on climate change – reinforced by the sense that Trump supporters may rebel against their victor if these positions were not implemented. Trump is likely to select at least two Supreme Court justices, which will leave an enduring conservative imprint.
6. The failure of pollsters to predict the US result was considered by one analyst to be due to assumptions being based on the voter base from 2008 and 2012 presidential elections, whereas Trump secured a new voter base in 2016. With the Trump victory thought to represent a wider pattern of protest voting further anti-establishment outcomes are considered a real possibility in the December Italian constitutional referendum, and in 2017 the French Presidential election, German and Czech elections.
7. The advent of "post factual politics" was a recurrent theme at most meetings. One political strategist pointed out that the election result represented many voters' perceptions (and rejection) of US political and economic norms. "Rust belt" voters believe Trump will improve or protect their circumstances, whereas most analyses suggest technology and automation are likely to continue to drive job losses and income stagnation in those areas.

Brexit process

8. US counterparts were keen to hear about the dynamic for the negotiations with the EU27, particularly following the off-on process for the Canadian free trade agreement, as well as the impact of the Supreme Court challenge and actual legislative process for the Great Repeal Bill.
9. There was no clear sense among US stakeholders of how the UK government can make a success of eventual departure and curiosity at the approach being taken. For example, what assurances have been given to Nissan and the implications of any agreements with specific businesses or sectors? Banking representatives said that corporate clients are interested in passporting and equivalence, but have little knowledge of the real dynamics of these debates. As with the US election outcome, there is a great desire for certainty but little sight of it.

UK competitiveness

10. Options for enhancing UK competitiveness and seizing new opportunities arising from the Brexit vote were discussed in general terms around improved regulation, but without specific suggestions. US banking representatives echoed recent comments on the need for transitional arrangements.
11. Others noted visa issues and problems with the existing system, and the example of how Indian students (and their parents) are unimpressed by the UK government's approach and restrictions on students remaining in the UK after their studies end. Access to talent and right to reside were specified as key concerns for Bloomberg, with CEO Michael Bloomberg known to be animated on this issue and keen for assurances from the UK government.
12. London's competitiveness is likely to be viewed relative to European peers. This was reinforced by a clear sense of the EU27's poor competitive appeal, due to employment practices and inefficiencies, with one guest citing the 35hr working week in France.

CSFI panel event - Why Brexit matters to US financial firms

13. The Policy Chairman spoke on a panel event arranged by the Centre for the Study of Financial Innovation. The panel was chaired by CSFI's Andrew Hilton and also featured Kay Swinburne MEP, Anthony Belchambers (All-Party Parliamentary Group on Wholesale Markets and the Financial Services Negotiating Forum), Nick O'Neil (Clifford Chance) and The Financial Times's John Authers. Key points from the discussion are below.
14. Kay Swinburne voiced her opinion that a bespoke deal would be the only positive outcome for the UK. This is because neither the Norwegian or Swiss models for Single Market access are practical or politically suitable either for the UK or EU27. The 'Great Repeal Bill' will have to be the main vehicle for implementing Brexit and incorporating EU law into the UK's, because alternatives would be too complex and would take years if not decades.
15. Other than the two-year window which follows the triggering of Article 50, the 2019 European Parliamentary elections were cited as a key timeline factor for the negotiations. It will be in the UK's interests to reach a deal before this point given the subsequent absence of UK MEP influence – but also because a new Commission

will follow the elections, which is thought likely to play against UK interests. While Swinburne believes Michel Barnier and Didier Seuss may be more sensible in their approach than commonly believed in London, federalists such as Guy de Verhofstadt are expected to lead calls for the UK to receive hard treatment. Autumn 2017 is also likely to be a pivotal period given that the outcomes of the Italian referendum, French, German, Dutch and Czech elections will be known by then.

16. Panellists debated equivalence which, as currently operated by the EU, was viewed not to be a satisfactory medium or a long term option given the scope for withdrawal and political influence and that it was entirely one-sided rather than mutual. A different form of equivalence may be possible if a new technical framework could be arranged to provide certainty and remove or reduce political influence in the equivalence process. However, the chances of securing this outcome were considered small by panellists.
17. Anthony Belchambers noted the work being done on behalf of the Financial Services Negotiating Forum by Norton Rose Fulbright on equivalence. This is expected to be complete in January and look at the full range of options including the "hard Brexit" scenario of the UK falling back upon WTO/GATS in the event a deal cannot be struck.
18. In summing up panellists' comments, John Authers noted the likelihood of a major cut in the US corporate tax rate. If this should happen, this could lead to reductions in corporate tax rates across western economies, with major implications for firms' location decisions.

Priorities for US businesses in the UK

19. There is no consistent view from the New York business community in relation to major financial institutions' plans for relocating or restructuring following the referendum. Some expect a "botched job" that is not optimal but also not disastrous. One point that was raised as a priority however was the need for a workable visa system to allow access to talent for firms. This is clearly a major issue and there may be a need for UK policy to prioritise key sectors including financial services.
20. Banking sector representatives said US institutions instinctively want to retain their London base but have obligations to their shareholders and customers if the costs of doing so are unsustainable or put access to European markets at risk.

US regulatory policy and tax reform

21. Those close to regulatory policy believe it unlikely that the new administration's position on Dodd-Frank will be clear within first 6-8 months. Quick movement is expected though on Obamacare, appointments to the Commodity Futures Trading Commission (CFTC), indications of directional shift in tax policy, and the Consumer Financial Services Bureau. Appointments to the Federal Trade Commission (FTC) and CFTC will be subject to Congressional budget and oversight powers for these agencies.
22. By contrast the Consumer Financial Protection Bureau (CFPB) receives Federal funding, and this may be subject to some debate. Those close to the matter said core parts of the financial services industry will not be calling for blanket deregulation or removal of those regulations already in place, given that this will not in itself provide cost savings or revenue increases.

23. Tax reform is likely to be a key pillar of the Trump presidency, with a re-writing of the US tax code and possible moves to a flat tax rate – Newt Gingrich is believed to be an advocate for this proposal. The commentator and economic analyst Larry Cudlow and Trump's senior economic advisor David Malpass are believed to be involved in tax policy formulation, including analysis of options for repatriating the estimated \$3-5 trillion in unpaid US corporate tax.
24. US businesses are in a state of uncertainty and will need information on the likely forward course of events, or as much as possible. There is a clear bias against multilateralism in Trump's trade policy and in favour of bilateral deals instead, and this is likely to be reflected in any attempt to resurrect TTIP or equivalent deals.
25. Twinned with the Trump victory, the UK's vote to leave the EU was felt by some to create new options on regulatory policy including on "substitutes compliance", i.e. processes for different jurisdictions to agree processes for recognising each other's regulatory standards – particularly if UK and US prioritisation of financial services and commerce can benefit both countries. Changes to the leaders of US regulatory agencies and a change of direction at US Treasury are likely to influence the US's approach to the Financial Stability Board and its agenda, with a very different worldview expected to be brought to the Basel Committee.
26. Significant changes to the Dodd-Frank banking regulations are expected to be "around the edges", with any wholesale repeal unlikely. In part this is because even with the present Republican majority, 9-10 Democratic senators would be needed to pass the 60+ threshold required for a more fundamental revision. Presidential appointees will also determine the regulatory mandates that stem from Dodd-Frank with selections to be made for regulatory bodies such as the Securities & Exchange Commission, Commodity Futures Trading Commission and Federal Trade Commission – these appointments will be made by a majority vote by the five commissioners responsible for each agency.
27. However, there are possible game-changers – including pending court cases on Dodd Frank which may alter the legislation through judicial decisions, as may a separate draft 'Choice Act' tabled by Congressman Jeb Hensarling (R-Tex) which may pave the way for an overhaul of Dodd Frank.
28. There will be a number of significant regulatory appointments in the US. There is provision for the Fed to have a Vice Chairman for regulation. This post has not been filled as a result of which member Dan Turillo has had this role de facto, and has taken a hard line on some aspects of regulation. The Vice Chairman post will probably be filled, leading to a different approach on banking regulation. The SEC will have a three-two Republican majority, which is likely to lead to a watering down or several aspects of Dodd Frank that come within the responsibility of the regulator. There may be some changes to the primary legislation but these are likely to be relatively minor.

Views on UK-EU negotiations

29. Political advisers believe some latitude may be possible in relation to trade agreements – i.e. while trade deals can't be signed while the UK is an EU member, some discussions around their possible scope and later agreement may be possible. This may be explored further when the new administration is in place.

30. One adviser characterised the US's position in relation to the UK and EU as akin to someone finding two close friends in a fist fight, and wanting the disagreement to be resolved as quickly as possible. This view reflects US's interests in ensuring the UK and EU economies do not damage themselves or cause global economic damage, with advisers aware of the fact the EU needs the UK's capital markets and should act accordingly. Signs that the EU may not take a pragmatic approach were viewed as counterproductive in this context.

FinTech

31. This significant common interest for London and New York was not discussed at length, but commitments were given to follow up on past contact between the City of London Corporation and NY Consulate in particular. Contact will be made following the meeting with Consulate officials to share details of activity in 2017 including the April FinTech summit.

Corporate & Strategic Implications

32. The Chairman's visit supported the vision of the City of London's 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".

Conclusion

33. The visit provided valuable insights 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 in relation to the government's preparations for Brexit and share insights with a range of senior stakeholders, while in return receiving valuable insights into the likely composition and direction of the new administration. The visit allowed your Chairman to deepen relations with established contacts and build new connections at a transformational time in US politics. These relationships can be built-on to enhance the Corporation's engagement with US stakeholders on both sides of the Atlantic, with scope to continue these discussions with a further visit to the US early in 2017.
34. 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 continued activity with US policymakers to address the regulatory and competitiveness issues raised by the Brexit vote and new US administration, with particular emphasis on improving regulatory coherence and cooperation.

Appendices

- Meetings: 18-21 November 2016

Contact:

Ben Stafford

Head of Regulatory Affairs, Economic Development Office

T: 020 7332 3085

E: ben.stafford@cityoflondon.gov.uk

Appendix: Meeting attendees

New York, Friday 18 November

- Roundtable breakfast hosted by Ross Allen (Director, UK Department of International Trade USA) at the Consulate General's residence, with audience of financial services, government relations and public policy guests. Attendees: Tom Miller, Diplomatic & Global Business Lead, Bloomberg BNA; Michael Scanlon, Partner, AiCE Group/Silverleaf Partners; Vanessa Champion, Vice President, MacAndrews & Forbes; Rosemary Werrett, Director of Business Development, Observatory Group; Jon Medel, Vice President, Goldman Sachs; Samir Lalvani, Lloyd's Bank USA; Brittany Kaiser, Director of Programme Development, SCL Group/Cambridge Analytica; Christian Hylton, Partner, Borah Goldstein; Tiffany Raspberry, President, York Group Associates LLC; Greg Menken, Vice President, 5W Public Relations; Chris Torrens, Senior Partner, Global Risk Analysis; Ross Allen, BCG NY; Matthew Windrum, BCG NY; Francesca Lorenzini, BCG NY.
- Roundtable meeting with Barclays hosted by Michael Gapen (Managing Director, Chief US Economist, Barclays) and investment banking, markets and policy leads from Barclay's New York office.
- Mark also spoke at the Centre for the Study of Financial Innovation (CSFI) panel event on featuring Kay Swinburne MEP, Anthony Belchambers (All-Party Parliamentary Group on Wholesale Markets and the Financial Services Negotiating Forum), Nick O'Neil (Clifford Chance) and The FT's John Authers. The event discussed why 'Brexit' matters to US financial firms.
- Meeting with Antonia Romeo, who was appointed Consul General in the US Consulate New York this summer, discussing the likely impact of the Brexit vote and US presidential election result on investment between the UK and US.
- Meeting with Greg Babyak (Global Head of Regulation and Policy, Bloomberg) and Gary Stone (Market Structure Strategist, Bloomberg) at Bloomberg's NY HQ.

Washington DC

Saturday 19 November

- Private dinner.

Sunday 20 November

- Dinner with Benedict Wagner-Rundell, First Secretary (Economic), British Embassy.

Monday 21 November

- Meeting with Office of Senator Bob Corker - Dr Ben Purser (Staffer, Senate Foreign Relations Committee) and Andy Olson (Senior Advisor, International Economics & Trade at Senate Foreign Relations Committee).
- Meeting with Patomak Global Partners - Dan Gallagher (President) and Ben Brown (Managing Director).
- Roundtable lunch Securities Industry and Financial Markets Association (SIFMA) - Ken Bentsen Jr (President and CEO) Peter Matheson (Managing Director, International Policy & Advocacy) David Strongin (GFMA Director) and industry representatives. Attendees: Ken Bentsen; Peter Matheson; Carter McDowell (SIFMA); Any Blocker (SIFMA); Lisa Schaefer (SIFMA); David Strongin (GFMA – on the phone); John Van Etten (New York Life); Monique Frazier (HSBC); Simon Winn (US Bank); Matt Niemeyer (Goldman Sachs); Michael Mclean (Barclays); Janelle Thibau (Bank of America); Jack Bartling (JP Morgan); Shawn Maher (RBC); Blanchard Laricke (Principal); Bret Hester (Barlcays); Mark Schuermann (Nomura); Desiree Green (Prudential).

- Think tank roundtable with the British Embassy, hosted by Deputy Ambassador Patrick Davies. Attendees: Patrick Davies, Deputy Head of Mission; Freya Jackson, Counsellor, Head of Global & Economic Policy Group; Benedict Wagner-Rundell, First Secretary (Economic); Alice Campbell, Counsellor (Economic); Tom Clougherty, Editorial Director of the Center for Monetary and Financial Alternatives at the Cato Institute; Andy Green, Managing Director, Economic Policy at the Center for American Progress; Emily Liner, Policy Advisor, Economic Program at Third Way; Marjorie Chorlins, Head of European Affairs, US Chamber of Commerce.