

<b>Committee(s)</b>	<b>Dated:</b>
Public Relations and Economic Development Sub Committee	28 June 2018
<b>Subject:</b> Policy Chairman's visit to Washington DC and New York. May 2018	<b>Public</b>
<b>Report of:</b> Damian Nussbaum. Director of Economic Development	<b>For information</b>
<b>Report author:</b> Duncan Richardson. Senior Adviser. US lead	

### Summary

The City of London Corporation's Chairman of Policy visited Washington and New York and for a series of meetings with senior policymakers and business representatives from 9-11 May.

Discussions focused on the future bilateral relationship in recognition that the US will be the UK's single most important post-Brexit trading partner.

#### Overview of key messages:

- **Global attention is fixed on an unpredictable White House. At a working level, however, high-quality officials are advancing an identifiable 'America First' agenda.**
- **Political goodwill towards the UK is high. Brexit developments have only reinforced the UK's reputation as a natural partner.**
- **In addition to this positive sentiment, the administration listens to business. The result is widespread support for the UK and US seeking a 'gold standard' post-Brexit trading relationship incorporating financial services.**
- **Significant challenges remain with sequencing issues central. The US will need much greater clarity on future UK-EU relations before investing energy in UK-US talks.**
- **Lack of available bandwidth across a stretched administration exacerbates these difficulties.**
- **In this climate, there is an opportunity to better define a future UK-US relationship in financial services sitting within the broader commercial ecosystem.**
- **We found support for the City of London, in close association with the CityUK and wider partners, to convene a group of trade associations from across the sector. The group would shape priorities and messaging, and to contribute to ongoing discussions.**
- **All interlocutors stressed the importance of actively deepening the UK-US relationship. We are advised to increase engagement and visibility in Washington.**

## **Recommendation**

Members are asked to note the report.

## **Background**

1. Members previously approved that your Chairman should visit the USA twice a year prioritising Washington DC and New York. 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 Chairman's last visit took place in November 2017. Members can find an overview of key messaging on the front page of Financial Times ([here](#), 8.11.17) and reaction to the Chairman's report to the Chancellor of the Exchequer in the Sunday Times ([here](#), 12.11.17).
2. Your Chairman visited Washington DC from 9-10 May and New York on 10-11 May. Michael Cole-Fontayn, Chairman AFME and theCityUK's US Market Advisory Group sub-committee accompanied. The purpose was to meet with business and policy stakeholders to advance discussions on the post-Brexit relationship with what will be the UK's single largest trading partner.
3. The programme included meetings with senior policy makers, representatives of financial institutions, the British Consulate and Embassy, and policy and political advisors.

## **Main Report**

*The political environment: Two administrations, united goodwill:*

1. Coming hours before the City of London's arrival in Washington, the US withdrawal from the Iran nuclear deal set the context for our discussions. Interlocutors cited this decision as evidence of the current White House's unpredictability. That European efforts to preserve the accord had failed leaves unanswered questions on how best to influence the administration at a political level.
2. The President himself appears driven by two primary motivations: 1. To counter the Obama agenda at every opportunity. 2. To make good on his campaign commitments. He campaigned as a disruptive candidate. He is delivering a disruptive presidency.
3. In many of our conversations, however, senior officials and business representatives spoke of a 'second administration'. At a working level, across the US Government and regulatory agencies, high-quality staff are advancing an identifiable agenda. As the US Treasury's Core Principles reports indicate, this is an administration willing to listen to the business community. One senior official described a 'sea change' shift in attitude. The business community largely welcomes recent tax and regulatory reforms. Concerns with the administration's trade agenda – we found many across the financial services sector and beyond – are proving more difficult to land.

4. At both a political and working level, this administration shares one important outlook: goodwill towards the UK. There are opportunities to harness this goodwill over these vital coming months.

*Trade: Establishing a UK-US financial services corridor within a broader trading ecosystem:*

5. One manifestation of this goodwill was near universal agreement that the UK and US should aim for a 'gold standard' Free Trade Agreement (FTA). President Trump and Republicans are seeking opportunities to assert a vision for global trade favouring bilateralism over multilateralism. Congress, through which any deal would have to pass, both recognises the potential value of an agreement and regards the UK as a natural trading partner. In many ways, the stars are aligned. The UK should, however, be under no illusions that the US will seek to maximise trade outcomes. Keen to puncture over-optimism, one senior official reminded us that "negotiating with the USA is not a pleasant experience".
6. Vice Chairman of the Federal Reserve, Randall Quarles, encapsulated a universally-agreed view that any deal must aim to include Financial Services. Stakeholders recognised opportunities for an FTA to address current frictions including the transfer of talent and taxation mechanisms, and to unlock opportunities for deeper regulatory cooperation. TheCityUK's upcoming report on financial services priorities for a UK-US FTA – work to which the City of London has contributed – will outline these opportunities in more detail. Interlocutors welcomed early efforts of the US-UK Trade and Investment Working Group and the recent creation of the US-UK Financial Regulatory Working Group.
7. The challenges to achieving such an agreement are largely threefold. As we found in November 2017, officials remain acutely conscious of sequencing. Time and again we heard that the UK's future relationship with the EU will need better definition before UK-US negotiations can begin in earnest. In the current climate, it is difficult to envisage a situation where the US can prioritise US-UK relations uniquely.
8. Second, the division between Trade and Investment, and Regulatory Working Groups points to a US insistence that these two streams be driven separately. The political independence of US regulatory agencies is sacrosanct. The US will not allow trade discussions to influence regulatory decision-making.
9. Thirdly, at a political level, the current administration is more comfortable conceptualising trade in goods over trade in services. Furthermore, recent tariff impositions driven by a focus on deficit-reduction have given rise to concerns that decisions are not being made holistically. There is more work to be done both in articulating the interconnectedness of global commerce and the big-picture value of services trade.
10. These three challenges are exacerbated by a severe lack of available bandwidth within the administration. Trade-focused officials are grappling with the policy implications of developments in Iran, China, Russia and North Korea and more.

NAFTA renegotiations continue in parallel (as FTAs tend build on previous iterations, we were advised to monitor progress closely).

11. This leaves questions of where progress can be made in the short-term and to what ends. Given the reciprocal political warmth, strong levels of trust and deep existing relationships between respective regulators, we found support for both countries pursuing the vision of establishing a focused UK-US financial services corridor lying at the heart of both the broader bilateral trading relationship and the global financial services ecosystem. The mechanisms for advancing this objective are already in place in the form of working groups.

*Defining and influencing the agenda: Convening a powerful collective voice:*

12. By defining priorities for future UK-US trade, the UK Government has an opportunity to overtake the US' 'America First' trade agenda. Articulating the value of a UK-US financial services corridor, based on regulatory cooperation and sitting within a broader FTA-deepened trading ecosystem would be a positive step.
13. A recurring theme in our meetings was the need for consistency in both engagement and messaging. An option for shaping such messaging would be to establish a group of financial services trade associations. This group would feed into both established Trade and Investment, and Regulatory Working Group discussions. As the head of government affairs in a leading FBO highlighted, there is value in aligning like-minded organisations to amplify influence within the current political climate. The subsequent step would be to establish a roadmap of activity targeted to influence key US stakeholders at all levels.
14. The City of London Corporation and theCityUK would be natural partners in establishing this group and roadmap. We received strong encouragement from both the Institute of International Finance and the Securities Industry and Financial Markets Association. The President's visit to the UK in July would provide a timely potential backdrop.

*Timing: Brexit developments underline importance of UK-US relationship:*

15. In the US, Brexit developments have heightened the sense of a UK-US special relationship. In both the administration and business community, the US is fully alive to the systemic implications of potential Brexit fallout. Concerns about the impact of a turbulent breakdown on US business and political interests are mounting. Recent US attendance at EUROFI was uniquely high. This is indicative of a growing US urgency around gaining access to core EU institutions.
16. In extension, recent Brexit developments have raised US concerns about the EU's reliability as partner. The dispute around supervision and location of clearing services is an important example. In this case, the Commodity Futures Trading Commission has articulated US concerns forcefully. Our interlocutors see the CFTC's as an example of how the US should and will be developing a harder edge to its advocacy. A secondary aim will be to ensure that the EU recognises these efforts as being based on US interests rather than in defence of the UK.

17. To date, the US has seen the UK as its most natural partner within the EU. Historical disagreements have been on detail rather than philosophy. We identified concerns for the future direction of EU policy-making without the UK around the table. In financial regulation, the US is aware of the need to: 1. Build wider relationships with EU institutions (whereas, in the past, strong ties to the PRA and FCA were enough). 2. Coordinate stronger UK relations in readiness to counter any rise of dirigisme within the global financial system.

*Internationalism: No retreat from the global stage:*

18. As well as underlining the value in deepening UK-US cooperation, Brexit developments have reinforced US intentions to remain firmly at the centre of international policy-making. As we discovered in November 2017, all levels of the current administration recognise that remaining fully engaged in global institutions is firmly in American interests. US companies are globally active and rely on well-maintained level playing fields.
19. There remains, however, a dissatisfaction with how international organisations and global standard setters operate. Any US reform drive will defend the institutions themselves but not the status quo. A 'fix not kill' agenda would aim to increase transparency, accountability and the industry voice within these organisations. The City of London Corporation has already identified this as an active area of focus and encourages US engagement.

*Internal regulation: Precision reform, not scorched earth:*

20. There remains no inclination among policy makers and officials to roll-back Dodd-Frank reforms. Changes will be around 'around the edges' with a focus on achieving 'proportionality'. Efforts will target perceived unintended consequences. Reduced access to finance for SMEs and historically low levels of IPOs are oft-cited examples. The bulk of the Act is 'not on the chopping block'.
21. The Economic Growth, Regulatory Relief, and Consumer Protection Act (the Crago Bill) is expected to pass. It intentionally targets the non-partisan aspects of Dodd-Frank such as Title VII. The US Treasury's Core Principles reports take a similar tack, placing responsibility for reform in the hands of regulators. An SEC Commissioner we met outlined the organisation's intention to move quickly on this agenda with the aim of making US markets the most competitive in the world. As well as Title VII, we should expect changes to the Volcker Rule and the Community Reinvestment Act.

*Looking forward: Digital, Cybersecurity, RegTech:*

22. The SEC and CFTC are leading the drive to coordinate US regulation around forward-facing issues. The upcoming fourth US Treasury Core Principles report will focus on financial technology and financial innovation. As a FinTech hub, the US holds London in high regard. Discussions often referenced the FCA's regulatory sandbox. This is an innovative model the US cannot replicate due to its fragmented regulatory environment but holds up as an example of global best practice as evidenced by the encouraging creation of CFTC's LabCFTC.

23. The US Chamber of Digital Commerce, through the Token Alliance, will release guidelines on digital commerce very shortly. Paul Atkins, as chair of Token Alliance, encouraged us to circulate this work and ensure alignment with Innovate Finance. More broadly, the US views the UK as a world-leader in establishing business-institutional cooperation. The need to tackle such forward facing issues has led to highly-regarded groups such as Innovate Finance and the Global Cyber Alliance. There is an opportunity for the UK to build on these models when considering future mechanisms for UK-US cooperation.

### **Reporting and next steps**

24. On her return, the Policy Chairman sent visit reports to the Chancellor of The Exchequer and Secretary of State for International Trade. In parallel, the EDO circulated a version of this report across the sector. Feedback has been strong.

### **Conclusion**

25. Conclusions are largely three-fold:

- This is a critical time for UK-US trading relations. In less than one year, HMG will be negotiating with the world's single most powerful trading nation. Despite innate goodwill towards the UK, the US will seek to maximise outcomes. It is crucial that the value and priorities of the financial services sector be understood and represented. There is a real opportunity to 'overtake' early-stage US agenda in this space and drive the agenda. To these ends, all our interlocutors pressed the importance both of increasing engagement and consistency of messaging.
- US interlocutors recognise the inherent benefits available in a deep future trading relationship. All want to see an ambitious 'gold-standard' FTA which includes Financial Services. That said, trade is a long game. The quick wins will come with tightening regulatory engagements. The mechanisms are in place for developing these, although there are opportunities to better align the sector. These should be pursued.
- The City of London can and should play a central role in leading these two objectives. The Corporation has the capacity to provide the business-institution coordination that neither firms nor trade associations can offer alone. Over the last 18 months, the City of London Corporation has enhanced its reputation as a trusted partner both with US and UK stakeholders. The Organisation is now well-positioned to transform into a leading player in the coming months.

### **Contact:**

Duncan Richardson

Senior International Regulation Adviser, Economic Development Office

E: [duncan.richardson@cityoflondon.gov.uk](mailto:duncan.richardson@cityoflondon.gov.uk)

**City of London delegation:**

- Catherine McGuinness. Chairman of Policy. City of London Corporation
- Michael Cole-Fontayn. Chairman Association for Financial Markets in Europe (AFME)
- Damian Nussbaum. Director of Economic Development. City of London Corporation
- Duncan Richardson. Senior Adviser International. City of London Corporation