



REPORT OF THE RT HON THE LORD MAYOR OF THE CITY OF LONDON'S VISIT TO PORTUGAL AND SPAIN: 4-7 MARCH 2018

Background

The Lord Mayor visited Portugal and Spain on 4-7 March. The objectives of the visit were:

- To present a clear and confident message on the future of the City and the UK financial and professional services sector in the face of Brexit.
- To highlight the constructive work of the International Regulatory Strategy Group (IRSG) in exploring future free trade models with the EU.
- To deepen partnership with Portugal and Spain in key areas, notably banking and fintech.

The visit took place just after the Prime Minister's Brexit speech at Mansion House and shortly before the Chancellor's speech on Financial Services. This context generated additional interest in and topicality for the Lord Mayor's visit.

Programme

The Lord Mayor spent one day in Lisbon and two days in Madrid. The programme was arranged and supported by the British Embassies in both cities. The Lord Mayor was accompanied throughout the visit by Rachel Kent (Head of Financial Institutions Group at Hogan Lovells and Chair of the IRSG workstream on EU/UK Financial Services) and Alderman Vincent Keaveny (Global Co-Chair for Financial Services, DLA Piper).

In Lisbon, the Lord Mayor met Foreign Minister Silva, Economy Minister Cabral and Deputy Finance Minister Mourinho. He opened a FinTech event and met a broad range of business leaders and politicians over dinner at the British Ambassador's residence.

In Madrid, the Lord Mayor met Europe Minister Toledo and Treasury Director-General San Basilio. He delivered a major speech on the City's role in Europe at the New Economic Forum to an audience of 250 business leaders and commentators. He participated in a FinTech round-table and closed a Women in Finance event. He spoke at a lunch hosted by the British Chamber of Commerce and met senior Spanish financial executives and regulators over dinner at the British Ambassador's residence. He awarded a new Mansion House Scholarship.

The Lord Mayor engaged with media from both Portugal and Spain before and during his visit, and promoted his "Business of Trust" initiative in both countries.

Key Themes

At all his meetings, the Lord Mayor emphasised that the UK financial and professional services sector, centred on the City of London, was a national, European and global jewel, which served the EU and world economies. It comprised a unique ecosystem based on a range of assets that were collectively difficult to replicate elsewhere and should ensure that the City continued to thrive.

While the City had not voted for Brexit, it respected the democratic process and accepted that, as matters now stood, the UK would leave the EU in March 2019. But it wanted to ensure that Brexit did not disrupt the extensive interdependence of the City and EU businesses. Half the debt and equity issued by EU companies was underwritten by banks located in the UK, and the City arranged over £1 trillion of cross-border lending annually to the rest of the EU. If the flows of financial services and capital were disrupted following Brexit, costs would increase for business and retail customers alike.

The City had therefore been making the case for an agreement with the EU that delivered the three Ts: an early agreement on a period of Transition as close as possible to current arrangements; a migration system which allows the City access to the Talent it requires and reassures EU citizens already in the UK; and a bespoke UK-EU Trade agreement that provides mutual market access in financial and professional services.

The City had endorsed the recommendations of the International Regulatory Strategy Group, representing the full range of international interests in the City, that mutual market access between the UK and EU could be based on regulatory alignment, close supervisory cooperation, and an independent resolution mechanism if disputes arose. Although the UK could not become a rule-taker in financial services, due to the sheer size of its financial centre, there was very little appetite among market participants for regulatory divergence. Having won the race to the top on financial regulation, the City had no interest in initiating a new race to the bottom.

The City had welcomed the ambitious but pragmatic and practical tone of the Prime Minister's latest Brexit speech at Mansion House, which drew substantially on the City's thinking. Recognising the UK's unique starting position of complete regulatory alignment, the Prime Minister had proposed an approach to securing a trade deal that preserved mutual market access in financial services to the mutual benefit of the UK and EU economies.

The Lord Mayor's interlocutors expressed considerable interest in the City's and Prime Minister's proposals for a future trade deal between the EU and the UK permitting mutual market access in financial services. The Portuguese and Spanish business communities saw such arrangements as essential to preserving existing business relationships and access to finance on the most competitive terms, though it was pointed out that the fully

subsidiarised nature of Spanish banks in the UK insulated them to some extent from the possible consequences of a “hard” Brexit. The business community wished to see a swift and smooth conclusion to the Brexit negotiations, to minimise any disruption and instability, as well as ensure continued mobility of talent. The Economy and Finance Ministries in the two countries were also cautiously receptive to the UK’s proposals, and underlined the desire of a broad and deep relationship with the UK after Brexit. Among Europe and Foreign Ministries (which are closest to the Brexit negotiations), there was greater emphasis on preserving the integrity of the single market, maintaining a unified EU position in the negotiations, the practical implications of how regulatory alignment would be assured in the longer term, and whether the ambitious nature of the UK’s proposals was realistic and could be successfully negotiated in the remaining time available.

Follow up

The Lord Mayor took away a substantial list of suggestions for following up and building on the success of the visit which colleagues at Mansion House and the Economic Development Office are now pursuing. The Lord Mayor will reflect with senior colleagues on the City’s engagement with the EU business community to see whether there is more we could be doing over the coming months to ensure that its broadly sympathetic attitude towards the UK’s proposals on mutual market access can be reflected in national negotiating positions for the post-Brexit trade agreement.

Conclusion

This was a productive and very timely visit. It gave the Lord Mayor an excellent opportunity to underline the interconnectedness of the City with the EU business and financial community, and to explain why a trade agreement providing maximum mutual access for financial and professional services would be strongly in the interests of all concerned. The Lord Mayor was also able to tackle head-on some commonly-held myths about the UK’s position, by playing down suggestions that the UK’s Brexit decision might be reversed, and underlining the City’s desire for continued regulatory convergence rather than a “bonfire” of regulation. The Lord Mayor’s set-piece speech to the New Economic Forum in Madrid was particularly important, and the participation of Rachel Kent (IRSG) throughout the visit most helpful. The Lord Mayor was also able to showcase in both Portugal and Spain the UK’s strengths in fintech, ahead of the Innovate Finance Global Summit in London in a few weeks’ time.

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