

<b>Committee:</b>	<b>Date:</b>
Public Relations & Economic Development Sub-Committee	10 September 2019
Policy & Resources Committee	19 September 2019
<b>Subject:</b> Preparing for a Deal and a No Deal Brexit in financial and professional services	<b>Public</b>
<b>Report of:</b> Director of Innovation & Growth	<b>For information</b>
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### Summary

Brexit creates both risks to manage and opportunities to seize. How the City responds will shape its position in the global economy for decades to come. The City of London Corporation has a central role in supporting and championing the City at this critical time. Focusing on the right priorities, working closely with partners, and making the most of our assets will be vital. This paper sets out the work being undertaken by Innovation & Growth (IG) so that the City Corporation can help the City thrive and forge ahead through any Brexit scenario.

### Recommendation

Members are asked to note the approach.

### Main Report

#### Background

1. London's supremacy as a leading global centre for financial and professional services (FPS) is constantly under threat from rivals. But a series of challenges will have a major impact in coming few years. Most obviously, Brexit is likely to fundamentally change our trading relationship with the European Union. But even before the June 2016 referendum, new risks and opportunities for the UK's competitiveness were appearing. Technological advances, the rise of East Asia and changing public expectations are transforming the business environment.
2. The City Corporation is uniquely positioned to help the City retain and develop its leading position. Under our vision to "Support a Thriving Economy", we seek to deliver increased City competitiveness in FPS. As well as playing a leading role in Brexit thinking and preparations, we have been focusing ever more of our work in areas that will help drive the City's success after Brexit. This will underpin the City's future, whatever our relationship with Europe.

## **Deal or No Deal**

3. All three broad Brexit outcomes remain possible: leaving without a deal, leaving with a deal of some variety and remaining in the EU for an extended period. The City Corporation's FPS work is focusing on the first two scenarios.

### *No deal scenario*

4. In the case of no deal, FPS would immediately lose passporting rights to the Single Market. Firms based in the UK have made preparations to service their clients. However, UK firms have significantly less access to EU markets than firms from our major competitor countries, creating both immediate cliff-edge issues and an ongoing competitive disadvantage.
5. Therefore, we continue:
  - to stress the importance of agreeing a Brexit deal with a standstill transition period; and
  - to push for mitigating measures to deal with cliff edge issues, should no deal occur.
6. Given the increasing likelihood of no deal, drawing on the work of the IRSG, the City Corporation is calling for the UK to seek temporary equivalence and data adequacy decisions.

### *Deal*

7. Should a deal be struck, the UK will need to negotiate the terms on which the City can access the EU market. The current equivalence regime is unsatisfactorily partial, politicised and precarious. The City Corporation, through the IRSG, is working on a cross-industry position, recommending a new bilateral access framework which respects regulatory autonomy of the UK and EU and builds on the EU's third country regime ("equivalence").
8. We will also need to continue to be influential in debates on future EU financial services policy and legislation, which we will track and act upon via the EU Regulation Standing Committee of the IRSG, and through our Brussels office.

## **Beyond Brexit**

9. While Brexit is the immediate challenge, the City's long-term success will be determined by its ability to innovate and promote its products and services. We cannot wait until Brexit is settled to seek to drive this work forward.
10. The UK government and regulators need to signal that the UK is an attractive place to do business as it has a strong regulatory framework that has the flexibility to enable innovation to thrive. We will also be working with firms and trade associations to understand what the City's key asks would be, across tax, regulation and access to talent.

11. IG is building on our recent restructure to focus our work on four core areas, so that the City Corporation maximises its impact in the most important areas:

- **An innovative ecosystem** – The City Corporation has a key role in helping London remain at the forefront of global innovation in FPS, including:
  - FinTech: supporting the next Lord Mayor’s FinTech 3.0 theme, developing a strategic review of the FinTech landscape with Innovate Finance, launching collaborative innovation pilots for individual FinTech verticals and supporting US VC investment into UK scale-up FinTech.
  - Environmental, Social and Governance (ESG): backing the launch of the Green Finance Institute, so that the UK will be at the forefront of sustainability and delivering the Social Impact Institute.
  - Cyber: building on the work of Cyber-Griffin to establish the City’s role in supporting UK cyber policy.
- **A world-class business environment** – Enabling business success through access to skills, resilient business infrastructure, and effective regulation underpinning global competitiveness. We will continue to focus on the need for a world-class visa system.
- **Access to global opportunities** – Strengthening global market access, ensure UK FPS exports reach priority markets and attract high-value inward investment to the UK. IG is strengthening its trade policy work to support DIT on trade agreements, HMT on Global Financial Partnerships, and seize other opportunities to develop FPS trading corridors. At the same time, the EU relationship will remain crucial. Our Brussels office has a central role in building relationships and good policy outcomes over the coming years.
- **Global recognition of the UK’s FPS offer** – Ensuring the UK’s world-leading FPS offer is recognised in key markets globally, attracting talent and businesses to the UK. Our new website – The Global City – has been widely welcomed in providing a strong and attractive platform for promoting the UK’s offer in the face of strong competition. We are working with London/UK partners to build out this showcase of UK expertise.

## Conclusion

12. The City is about to go through the most significant period of change in a generation. How we navigate these challenges will have profound effects on the City’s place in the global economy, and the contribution it is able to make to the well-being of people in the City, London and the wider UK. However, the City’s underlying fundamental strengths mean that with the right kind of support, and the City Corporation playing its full part, it can stay ahead and continue to thrive in the years to come.

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