

Committee(s): Public Relations and Economic Development Sub Policy and Resources	Date(s): 20 February 2014 20 March 2014	Item no.
Subject: Development of the City of London Corporation's engagement with EU institutions, development of policy on EU regulatory issues, and the role of the International Regulatory Strategy Group (IRSG)		Public
Report of: Director of Economic Development		For Information
<p style="text-align: center;"><u>Summary</u></p> <p>The purpose of this paper is to chart the development of the City of London's relationship with the EU, and how the City of London Corporation is contributing today to the policy dialogue. It also explains the development and role of the International Regulatory Strategy Group (IRSG).</p> <p>Recommendations</p> <ul style="list-style-type: none"> a) The Committee supports the current arrangements for consideration of regulatory policy matters primarily through the International Regulatory Strategy Group (IRSG); and b) Agrees that these matters will, in addition, be a standing item on the PR/ED Sub Committee agenda. 		

Main Report

Background

1. This paper provides Members with a history of the development of the City of London Corporation's engagement with EU institutions, and EU financial services regulation and policy. It also explains the development and role of the International Regulatory Strategy Group (IRSG).

2. Further context can be read in the speech given by your Chairman to the Guildhall History Association on 20 January 2014, on the development of the City of London Corporation as a representative body. The full text is attached here: Historical Association Speech - January 2014
3. The Policy and Resources Committee, now responsible for representative work, was established in 1979, but it was only in the early 1990s that it moved into representing the financial services industry and promoting London's interests e.g. supporting the establishment of London First in 1992. A major part of this was what became known as the City Research Project (CRP), which, at that time, was the most substantial programme of coordinated research ever undertaken into the City's international competitive position. The final report was published in 1995 with consecutive events in the world's three leading international financial centres at that time – London, New York and Tokyo. The CRP enabled the City Corporation to be a credible voice for UK-based financial services, because it was recognised it worked in partnership with the industry, and contributed to evidence-based policy making.
4. On the City Corporation's engagement with Europe, the first significant step taken was in February 1992, with the establishment of a two-person "European Office" in Guildhall reporting to the then Deputy Town Clerk. This was established to act as a form of in-house consultancy for City Corporation departments providing information on European developments of relevance. Initially its function was largely confined to traditional Local Authority activities e.g. food hygiene and employment law, rather than financial services. It did however, include a visit by the then Lord Mayor to Brussels in 1996, accompanied by the Deputy Policy Chairman.
5. Following a review, there was a step change in 1997 linked in part to the UK's Presidency of the EU, as well as the developing debate on the Euro. The "European Strategy" developed at the time was designed to consolidate the relationship the City Corporation had developed with EU institutions over the previous five years. It comprised the following four strands: contact programmes with the European institutions; contact programmes at Member State level; monitoring EU developments in relation to the City Corporation's Local Authority functions; and an ongoing European support function. The papers are explicit that the "Strategy has been developed with a long term perspective in mind", but at that stage work was supported by Brussels based consultants.
6. In a significant policy change, the next stage was the establishment of the EU Advisory Group and the City Office in Brussels.

EU Advisory Group (EUAG) and the City Office in Brussels (COIB)

7. In 2002 and early 2003 there was an extensive programme of consultation involving trade associations, firms and HM Treasury, which expressed the hope that a City Office in Brussels could “help a wide range of organisations to present their views more consistently and effectively about cross-border sectoral issues”. The key concern emerging was to avoid duplication of others’ efforts and to provide genuine added value.
8. The City Corporation’s response to this was to establish an Advisory Group (the EU Advisory Group – EUAG) in London to steer the work of the COIB. Sir Nigel Wicks, former Permanent Secretary at HM Treasury, agreed to chair the EUAG, which comprised senior City practitioners. The then Policy Chairman was appointed Deputy Chair of the EUAG. The EUAG and COIB were underpinned by an EU Regulatory Working Group, which as its name suggests, was a broad cross section of working level contacts from firms and trade associations, as well as by continuing support from Brussels-based consultants. The underlying objectives were to enable the City to “up its game in Brussels” and to raise awareness in City Boardrooms of the significance of EU regulatory activity. The EU agenda was also supported by the development of the City of London Research Programme, by now based in the Economic Development Office (EDO) established in 1994.
9. The now well-established City Programme for new EU Member States began with a pilot training programme for ten Czech regulators in the first quarter of 2003. The City Programme runs annually, and shares best practice in financial services and builds personal links between City institutions and talented representatives from newer EU Member States.
10. Andre Villeneuve, then Chairman of Euronext LIFFE, succeeded Sir Nigel Wicks as EUAG Chair in September 2006; and Stuart Fraser succeeded Sir Michael Snyder in May 2008 as Deputy Chair.

Establishment of the International Regulatory Strategy Group (IRSG)

11. As noted in your Chairman’s speech (referenced earlier) the financial crisis that began in 2008, and the subsequent damage to the reputation of the financial services industry, was a serious threat to the role of the City Corporation. In response to the crisis, two separate initiatives by the then Chancellor of the Exchequer and the Mayor of London established joint industry working groups, in which the City Corporation played a major part. These working groups examined the issues and made recommendations for action that would ensure London and the wider UK maintained its position as the world’s leading international financial and business centre. This led to the establishment of TheCityUK on 1 June 2010.

12. In developing the mandate for what was to become TheCityUK, consultation with City practitioners, trade associations, HM Government and other major political parties, led to the conclusion that the EU Regulatory Agenda needed to be part of TheCityUK's role (the other two principal areas being overseas promotion, and what was termed at the time the "domestic agenda"). The final meeting of the EUAG was held on 2 December 2009, when it was agreed that to avoid duplication of effort and to develop the involvement of TheCityUK, the EUAG would also become an advisory group to TheCityUK. The name change to the International Regulatory Strategy Group (IRSG) was also agreed, to reflect the aim to consider regulatory issues in a global context.

The International Regulatory Strategy Group (IRSG) is a practitioner-led body comprising leading UK-based figures from the financial and professional services industry. It aims to be one of the leading cross-sectoral groups in Europe for the financial and related professional services industries to discuss and act upon regulatory developments. It is an advisory body to the City Corporation and TheCityUK. The City Corporation and TheCityUK provide a joint-secretariat function for the IRSG.

13. The key principles of the IRSG were as follows:

"It will help shape the international regulatory regime so that it promotes open, competitive and fair global capital markets globally and in which the City and other financial centres across the EU can play a full role.

It will assist the continuing development of the UK (and in particular the City) as an international market place, complementing the activities of participating individual interests, represented by trade associations, financial services firms, trading platforms and infrastructures for the benefit also of the EU and neighbouring economies.

It will determine on an ongoing basis the specific priorities and identify those issues which would benefit from a collective approach.

It will work closely with HM Treasury in meeting the above objectives."

14. A review of the IRSG in 2011 by Accenture led to the establishment of the IRSG Executive Board (co-chaired by EDO Director and CEO of TheCityUK) to act as the delivery mechanism for the IRSG Council and the link to the broader based IRSG Experts Group.

The IRSG principles were revised (see Appendix A) and the revised Terms of Reference (August 2011) noted that "the IRSG will retain governance links with TheCityUK and the City of London Corporation. The Chair

supported by the Deputy Chair, will report on IRSG progress to TheCityUK Advisory Council and the City of London Corporation.”

15. Working Groups, chaired by members of the Executive Board, are established to respond to individual areas of policy. Working Groups have been established for subjects such as MiFID II, the Recovery and Resolution Directive, Data Protection, the Financial Transaction Tax and Post-Trade Finance.

A recent product of a Working Group was the IRSG’s submission to HM Treasury’s consultation on the *Balance of Competences Review – Single Market: Financial Services and the Free Movement of Capital*. The Working Group was established by the Executive Board, at the wish of the Council. The Working Group was chaired by a representative from JP Morgan and had members from Thomson Reuters, Clifford Chance, Citi, London Stock Exchange Group, PwC, Goldman Sachs, Aviva, Allianz Global Investors and TheCityUK. The Working Group’s secretariat was provided by the City Corporation. The Submission was produced to articulate views from a cross-sectoral perspective. The Working Group liaised with trade associations, but the associations led on industry specific viewpoints. Members can read the IRSG submission at Appendix B.

16. Rachel Lomax, formerly a Deputy Governor of the Bank of England, succeeded Andre Villeneuve as IRSG Chair in January 2013; your Chairman succeeded Stuart Fraser as IRSG Deputy Chair in May 2012.

Conclusion

17. This report has described the evolution of the processes and infrastructure for managing the City’s relations with the EU. From the outset the City of London has recognised the importance of being able to draw on professional expertise either through consultants (on a fee paying basis) or through a cross-section of City interests, from senior practitioners through to trade associations, via HM Government and regulators – all on a voluntary or pro bono basis.

The IRSG has established itself as the pre-eminent cross-sectoral forum in Europe for the financial and related professional services industry. Its dialogue with European institutions and input to significant regulatory debates is both welcomed and acknowledged by the industry and those in Brussels.

The IRSG aims to develop cross sectoral positions which represent the broad range and diverse interests of City players complementing the more issue specific submissions of individual trade associations. The latest

Council membership list is attached (Appendix C). In addition to making an input through the Deputy Chair of the IRSG (your Chairman) and at officer level, the City of London Corporation continues to act as a representative of the UK-based financial and professional services industry, not least through the Lord Mayoral overseas visits programme.

18. Although on the regulatory agenda the City Corporation operates mainly through the IRSG, it occasionally responds to either European or HM Government consultations in its own right. For example, in August 2013 the City Corporation made a submission to the Balance of Competences consultation on the *Free Movement of Persons*. In March 2013, when there was insufficient time to develop an IRSG response, both the City Corporation and TheCityUK submitted separate responses to the first phase of the Balance of Competences consultation on the *Internal Market*.
19. The current arrangements, which have evolved over the past 20 years, reduced the dependence on paid consultants and engaged with a wide cross section of City interests on a pro bono and voluntary basis, reinforcing the City Corporation's role as the principal champion of the City. The arrangements have served the City Corporation's interests well. However, given the increasingly important linkage between the EU Regulatory and wider international agenda on the debate about the UK's future relationship with Europe, there is scope further to refine the process. The PR/ED Sub Committee has already contributed to developing City Corporation strategy on EU issues: see Policy & Resources Committee papers June 2013 and September 2013. It would therefore seem to be an appropriate forum in which to consider these matters.

Recommendation

20. It is recommended that:
 - a) The Committee supports the current arrangements for consideration of regulatory policy matters primarily through the International Regulatory Strategy Group (IRSG); and
 - b) Agrees that these matters will, in addition, be a standing item on the PR/ED Sub Committee agenda.

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