The City and Brexit

A CSFI survey of the financial services sector’s views on Britain and the EU
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Preface

This is a communal CSFI effort. There is no lead author; there is no institutional view. Our staff is as split on ‘Brexit’ as staff at any relatively well-informed City institution is likely to be: one or two of us think the EU is the work of the Devil, others think it is the bee’s knees. But, either way, we all think our relationship with Europe is important – to us, to the City, and to the wider UK.

I am grateful to everyone who worked to get this report out as quickly as possible. It would be invidious to name names (they know who they are); it was a team effort.

Andrew Hilton
Director, CSFI

Cover illustration by Joe Cummings
I Introduction

The biggest issue in British politics today is the country’s relationship with Europe. In particular: Will it, or will it not, remain a member of the European Union? The Prime Minister has promised a referendum on the subject if he wins the May 7 election, and it is widely assumed that he will campaign actively for the UK to remain in the EU, whatever deal he manages to get from Brussels.

But it is not as simple as that. If the UK is to remain in, what conditions will (or should) it demand (if any)? And what reforms will (or should) it seek? If it is to quit, what alternative futures are there for the UK – and how might it realise them?

That’s at a national level. The same issues arise a fortiori for the City of London and for the UK’s financial services sector more broadly. What happens if the UK stays within the EU, or quits, matters: after all financial services account for at least eight per cent of gross value-added in the UK1. And, even after the post-2007 financial crisis, the sector remains one of the most vibrant and fastest growing in the British economy.

The CSFI does not know whether the UK will stay or leave – and has no institutional view. But, over the last couple of years, we have seen a notable change in attitudes towards Europe, so we thought it might make sense, ahead of the election, to sound out opinion in the City of London on the desirability (or otherwise) of “Brexit” — and on the challenges the UK financial services sector faces with regard to Brussels whether or not it decides to remain a part of the EU.

As a result, we put together a fairly brief questionnaire (reproduced as Appendix I), the aim of which was to get a sense of where the City’s main concerns are when it comes to Europe. What’s wrong with the EU from the financial services sector’s point of view? And what’s right? If the UK stays in, what would people in the City like to change? If it quits, what are the main dangers/opportunities?

The CSFI’s contacts are a fairly good cross-section of the UK’s financial services sector. We are supported by around 70 institutions, from both the public and private sectors, and we have around 9,000 names on our database. Although about a third of our work programme involves the EU (including a monthly ‘Brussels for Breakfast’ meeting of Eurowatchers, now in its ninth year), we don’t have any particular axe to grind; eurosceptics and euro-enthusiasts are equally welcome.

The questionnaire was distributed between February 15 and March 19, primarily through our website although we also circulated hard copy versions. In the end, we received 408 valid responses, which is enough to be fairly confident that most of the conclusions we draw are statistically significant.

The main conclusion is clear: “City folk” (ie those who are professionally active in and around the UK financial services sector) are most unlikely to vote to quit the EU. Nearly three-quarters (73%) say they will either ‘definitely’ (49%) or ‘probably’ (24%) vote to stay in, while only 12% will ‘definitely’ vote to get out.

The emphatic vote to stay in was a slight surprise to us. However, it accords with broader polling data. Open Europe’s “Brexit Barometer”, for instance, puts the chances of the UK leaving the EU during the next Parliament at just 17%². A February poll by YouGov is less unequivocal, suggesting that 35% might be willing to leave – but that is the lowest level of support for Brexit in over two years, and the trend seems clear.

It is indeed a trend that we have noticed – and one that prompted us to initiate the survey. Over the last few years, it has been clear that the mood in the City with regard to membership of the EU has changed. Three or four years ago, when Brexit still seemed a very distant prospect, there appeared to be something exciting, even romantic, about it. Britain (it was argued) could be liberated from the ‘tyranny of contiguity’, could pick and choose its trading partners from areas of the world with better economic prospects than sclerotic Europe, and could become a sort of ‘super-Singapore’ – a high-growth, offshore financial centre, serving the global economy and not hemmed in by the dead hand of Brussels bureaucracy. More recently, however, as a referendum has become more likely, there has been a sense that the mood has changed – that the City is more worried about concrete short-term issues like jobs, and less enthused about the potentially pie-in-the-sky long-term prospect of becoming a global financial and economic powerhouse.

And that, indeed, would seem to be the main message of this survey.

A subsidiary conclusion (which also bears out a feeling that has grown over the last couple of years at CSFI round-tables, and particularly at meetings of our ‘Young Economists’ group) is that younger City folk are more pro-European than their elders. In the 18-30 age group, 80% of respondents said they would ‘definitely’ or ‘probably’ vote to stay in; in the 60-plus group, the comparable figure was 66% - still high, but significantly lower. Two explanations offer themselves:

- that older respondents (many in or nearing retirement) are less concerned about their job prospects; and/or

- that older respondents (raised on tales of Empire when half the world was pink) tend to be more ‘global’ in their outlook, while younger respondents are more ‘European’.

It may also be worth noting that female respondents appear to be more pro-European than males – though whether this is statistically significant is open to question, given the small sample size and the fact that the average female respondent was younger than the average male. Nevertheless, only 18% of female respondents would ‘definitely’ or ‘probably’ vote to quit the EU, compared with 25% of males.

We would have liked to test the views of retail and commercial bankers against, say, asset managers and hedge fund types, since it has been suggested that the latter tend to be more eurosceptic – perhaps because their activities are less location-specific (ie they can move, and indeed many have). However, “banking” is a very diverse industry, and the breakdown of professions that we offered was too fragmented to be much help. Just about the only conclusion that we can draw with confidence is that those who identified themselves as “consultants” were markedly more pro-European than the average: fully 93% of them said they would ‘definitely’ vote to stay in. They know which side their bread is buttered on.

Although the size of the majority in favour of remaining in the EU is impressive, pro-Europeans cannot take too much comfort from the result of the survey.

In particular, there is very little evidence of any real enthusiasm for Europe. Thus, among those who would ‘definitely’ or ‘probably’ vote to stay in the EU:

- 65% believed that the UK ‘gold-plates’ EU legislation, thereby putting UK firms at a competitive disadvantage;
- 59% felt that Britain’s MEPs don’t fight hard enough in support of the City; and
- 31% said the Commission was actively hostile to City interests (while 49% felt it was neutral at best).

So, why did they support continued EU membership by such a majority? The answer seems clear:

- The first factor is the perceived need to preserve UK access to the EU’s Single Market in financial services. The City is much the largest financial centre in Europe, and many respondents feel it is well placed to increase its share of Europe’s financial business.
- The second factor seems to be a real concern that London would lose its place as an international financial centre, both in Europe and globally, were the UK to leave the EU, because banks would relocate to the eurozone. Finance is a mobile business, and foreign banks have no particular loyalty to London. Some respondents...
even suggested (rather implausibly) that the City would lose business to Amsterdam and Zurich – though Frankfurt and Paris appear to pose bigger threats. Among those more sceptical of the UK’s place in Europe, Hong Kong, Singapore and New York were mentioned more frequently as likely to pick up business.

- The third factor is a fear that the UK would not be able to negotiate a satisfactory trading arrangement with the EU if it left. It would face barriers to the Single Market, and might well suffer punitive sanctions.

Those are all real concerns, and they appear to have outweighed the concerns associated with remaining in the EU. Those concerns, however, should not be underestimated.

Yes, there were a few dyed-in-the-wool euro-enthusiasts in our sample, but the open-ended comments that respondents were encouraged to make suggest they are few and far between. Only one respondent, for instance, blamed the UK’s failure to join the euro for its current ambivalence. And most respondents clearly shared Angela Knight’s frustration with the EU’s “bloody stupid petty rules”.

In the end, the strong sense that comes out of the survey is one of resignation, rather than enthusiasm, coupled with confusion and contradiction in the responses. Yes, by and large, the City wants to remain in the EU. But it doesn’t like Brussels, it fears European regulation and it is worried about the political drift of the EU.

Nevertheless, overall, 82% of respondents felt that – whatever their own personal views – the UK will still be a member of the EU in 2020. Even among those who said they would ‘definitely’ or ‘probably’ vote to get out, 57% still expect Britain to stay in the EU. Political scientists call this ‘cognitive dissonance’ – holding two apparently contradictory beliefs at the same time, with more or less equal force.

That said, resignation and contradiction do not seem to mean that there is no appetite for reform – or, indeed, no hope of it. In particular, there was a feeling that Capital Markets Union (even if most respondents still seemed a tad unclear as to what it might entail) is a positive initiative, from which the City should benefit. Lord Hill, please note. Other priorities for reform, if (as the overwhelming majority expects) the UK remains part of the EU, are:

- to complete the Single Market in financial services, which 36% of respondents felt did not exist or ‘hardly’ existed;

- to protect non-eurozone members from domination by the eurozone (this is obviously closely tied with a recalibration of the
Qualified Majority Voting system, which an overwhelming 73% of respondents deemed to be ‘important’ or ‘very important’);

- to conclude trade agreements with third countries, particularly China and the rest of Asia; and

- to give new life to the principle of subsidiarity.

The support for a rethink of QMV is important. It is clearly the most important of the areas on which Prime Minister Cameron has indicated that he will seek concessions. In contrast, 54% of respondents felt reform of immigration rules (another of Cameron’s priorities) is ‘important’ or ‘very important’, while only 47% felt the same about cutting the UK’s budget contribution.

What are the implications for campaigners on either side of the ‘Brexit’ issue?

For those organisations actively campaigning for the UK to remain part of the EU, the choice seems fairly clear:

- they can rest on their laurels, and rely on a combination of fear about the future and inertia to carry them over the line – which, as far as the City is concerned, seems very likely; or

- they can actively campaign on the positive aspects of the EU – its size, its potential dynamism – to present a more appealing case.

On the evidence of this survey, it will not be easy to convince even those who support staying in that the EU is in any sense a “shining city on the hill”. It is there and we are stuck with it – for better or worse: that seems to be the message.

For opponents, the outlook seems pretty bleak. On the evidence, they will have their work cut out to turn opinion around. At the least, it would require two things:

- a much more appealing ‘vision’ of a global future for the UK outside the EU; and

- a much less terrifying route-map of how to get from here to there.

The latter seems particularly important. The message we take away from our survey is that, right or wrong, the City is scared of the implications of an ‘out’ vote – and about its vulnerability if the UK chooses to go it alone.
II Responses To Individual Questions

A Voting Intentions

The first question we asked was straightforward.

Q1. If the government cannot reach a satisfactory agreement, and if, therefore, there is a vote on Britain’s membership of the EU in the next few years, will you:

a. Definitely vote to stay in
b. Probably vote to stay in
c. Probably vote to get out
d. Definitely vote to get out?

The response was pretty unequivocal:

Almost three-quarters will vote to stay ‘In’
Respondents showed a strong preference for remaining in the EU: 49% said they would ‘definitely’ vote to stay in and a further 24% said they would ‘probably’ vote to stay in. This result reflects wider considerations than just the City, of course, but it shows that “City people” are inclined to think that the UK’s broad interest lies in remaining a member of the EU.

As noted, there is a strong correlation between favourableness to the EU and age:

<table>
<thead>
<tr>
<th>Age:</th>
<th>18-30</th>
<th>31-45</th>
<th>46-60</th>
<th>Over 60</th>
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</thead>
<tbody>
<tr>
<td>Would ‘definitely’ or ‘probably’ vote to get out</td>
<td>20%</td>
<td>13%</td>
<td>21%</td>
<td>34%</td>
</tr>
</tbody>
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On specific City issues, respondents expressed a marked concern about the need to preserve the ‘passport’ to the Single Market, to keep a seat at the table where EU financial regulation is formulated and to protect London’s international status as a top financial centre, not just in the EU but in the global market.

For instance, a former UK financial supervisor said:

“A very large proportion of City activity is wholly dependent on preservation of the ‘passport’. For UK-based firms, who may very well be ‘rest of Europe’-owned, or from a third country, there will be almost certain loss of access to sell into the rest of the EU. And for ‘rest of Europe’ firms, they will lose the right to establish in the UK using their inward passport. Renegotiation to preserve the status quo seems improbable, indeed well-nigh impossible in the political context of a decision to give all this up.”

That was a widespread sentiment.

There was also a concern that the referendum process itself would damage City interests, regardless of the outcome. As one academic put it:

“The uncertainty caused by the referendum process will, of itself, lose the UK friends and partners in ongoing EU reform debates. There will certainly be a loss of political capital within the EU – the only question is just how much.”

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3. Nine per cent of the 408 respondents would not be entitled to vote because they are non-UK citizens. They are excluded from the numbers in this section; however their responses are included in subsequent sections because they represent financial interests located in the City.
Many respondents feared that Brexit would cause international firms to relocate to Continental centres, with the accompanying drain of talent, jobs and investment from London, and a decline in its financial status. The loss of influence in Brussels and Strasbourg could produce damaging rules, even outright discrimination against London.

“If we leave the EU, the economy will tank and the City will be brought down by it along with everything else. The UK will lose almost all the international influence that it has and will become a sort of irrelevance, like the Isle of Wight, only bigger.”

“I believe that the City is and always has been international with a very strong cross border focus. The City works well in adapting to different cultures and practises unlike the EU that insists on centralising and standardising.”

The view among the minority that would vote to get out was that many of these fears are exaggerated, and that the City’s strength and resilience would see it through. Brexit might even be an opportunity to escape the EU’s regulatory hold.

For instance, a bank director said:

“There will be a period of significant confusion as overseas firms – particularly banks – which use a London subsidiary decide how much of their operation to transfer elsewhere in the EU, and while the UK government negotiates bilateral treaties with EU members or perhaps the EU itself to allow British financial institutions to access the EU markets and vice versa. In the long run, the City will prosper again, as it always has.”


B Likelihood Of Brexit

The second question was equally straightforward:

Q2. Regardless of the voting preference you stated in Q1, how likely do you think it is that the UK will still be a member of the EU in 2020?

The answers were pretty unequivocal – and also revealing:

The overwhelming majority expects the UK to remain a member of the EU: many felt it is where the UK’s best interests lie, and a minority argued that reforms would make the EU more popular even if its economic prospects are pretty dismal. There was a sense of resignation among the sceptics: of those who said they would “definitely” or “probably” vote to get out, 57% said it was likely or very likely that the UK would stay in. But there was also worry among those who would vote to stay in: ten per cent thought the UK would be out by 2020.

The City has a large non-British population that presumably will not be eligible to vote in a referendum. In our sample, there were 38 people in this category. However 79% of them expect the UK to still be a member of the EU in 2020.
C The City And The Single Market

We asked two questions specifically related to the Single Market:

Q3. It is usually said that the biggest benefit to the City of EU membership is the Single Market in financial services. Do you believe that a Single Market in financial services actually exists?

and

Q4. To the extent that the Single Market does exist, has the City got its fair share of the business?

On the first question, the response was generally positive:

![Pie Chart]

Nearly two thirds of respondents thought that a Single Market in financial services exists, “definitely” or “mostly”. However, it is striking that only nine per cent were fully convinced of its existence. The “mostly yes” category said that local protectionism and attempts by EU institutions to divert business away from London qualified their view. These points were emphasised by the “hardly at all” and “definitely not” categories, who pointed to local barriers and efforts at the supranational level to discriminate against non-Eurozone countries in general, e.g. on access to payment systems⁴, and the UK in particular.

However, ten per cent of those who believed in the existence of the Single Market, “definitely” or “mostly”, would still vote to get out, mainly because they took the

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⁴ Many respondents replied before the European Court of Justice, on March 4, annulled a proposed policy by the European Central Bank to require all euro clearing and settlement to take place within the Eurozone.
view that the Single Market is not sufficiently liberated. Conversely, 42% of those who were not convinced of the existence of the Single Market would still vote to stay in because they thought that its prospects are improving. As a respondent from a City trade association put it: “While the Single Market in retail services remains elusive, there are clear signs that progress is now possible and likely in this area. That means that there is even more at stake if the UK steps away from the table.” A respondent from an online bank said there is “still a lot to do in the EU in terms of the single market for financial services. But once complete, the City is best placed to dominate financial services for 500 million+ people (if we remain in the EU)”.

Responses to the second question, on the UK’s share of Single Market business, were surprisingly unequivocal:

Yes, the City is getting its share of Single Market business. A handful of respondents even felt that the City had got more than its fair share. The “Yes’s” saw the City as being in a league of its own among EU financial centres. “London is the home of EU-wide finance”, was one comment.

Among those relatively few who felt the UK is not getting its share of the business, one response stuck out: “Try buying car insurance in France from a UK provider, try buying life insurance in France from a UK provider…”
D “Gold-Plating”

The thinking behind this question was to ascertain who is really to blame for bad or over-regulation – Brussels or Whitehall. The CSFI has noted over the years that Britain is far from blameless when transposing EU rules into UK legislation. Hence:

Q5(a). It is often alleged that UK regulators ‘gold-plate’ EU legislation – thereby making European rules more onerous that they need be, and putting UK firms at a competitive disadvantage in the EU market. Do you:
   a. Strongly agree
   b. Agree
   c. Disagree
   d. Strongly disagree?

This clearly stuck a nerve. Over two thirds of respondents either ‘agreed’ or ‘strongly agreed’ that the UK does itself no favours:

The view that the UK handicaps itself by ‘gold-plating’ financial regulation is widely held, though there is a deeper issue of whether onerous regulation really comes from London or Brussels. Of the 68% who thought it comes from the UK, many attributed it to the strength of anti-bank feeling, the excessive zeal of UK bureaucracy and the naïve UK belief that gold-plating is what all EU members do. As one respondent put it:
“Stop our regulators gold-plating EU regulation by ensuring all EU regulation has a strong input from the City, and then insist it is all done as far as possible by one set of inflexible Regulations and not in Directives which allow our regulators too much room to gold-plate.”

Those who believe that the UK does gold-plate EU legislation, and those who do not believe that to be the case, were almost equally likely to support staying in the EU (73% and 72% respectively).

### E  Influence In Brussels

We asked two questions here – one covering the UK’s effectiveness in the European Parliament and the other covering our influence within, and on, the Commission:

**Q5(b).** Do you agree with those who feel that our representatives in the European Parliament don’t fight hard enough in support of the City?

**Q5(c).** What do you feel about British influence on the Commission? Is the Commission:

- a. Hostile to City interests
- b. Neutral
- c. Broadly supportive of City interests?

Responses to these questions were interesting – and go to the heart of our impression that even those who want the UK to stay in the EU do so from a position far removed from enthusiastic support.

On the issue of MEPs fighting for the City, 62% of respondents ‘agreed’ or ‘strongly agreed’ that they don’t fight hard enough – which is a serious indictment of Westminster’s lukewarm attitude to what goes on in Strasbourg and Brussels:
The UK’s influence in Brussels is weak — and getting weaker

Criticism of UK involvement in the Parliament morphed into a more general concern about how Britain handles the EU. Respondents cited the lack of political support for City interests, cutbacks in the size and quality of UK representation in EU institutions and growing anti-UK feeling within the EU generally. One pro-EU respondent said:

“The UK's influence on major areas of global policy will be in serious decline. Already Britain has allowed its influence within the EU to diminish, not sending its best and brightest to take up key posts (junior and senior). Leaving the EU will make Britain an also-ran.”

The second question, on the Commission, was unfortunately phrased. It was really two questions:

- Is the Commission hostile to/supportive of City interests? and
- Either way, does the UK have appropriate influence within the Commission?

If we do the survey again, we will try to get the questions right. In the meantime, it is worth trying to parse responses to what was a portmanteau question. What is perhaps most significant is that 42% of respondents felt the Commission is ‘hostile’ to City interests, while only 16% felt it is supportive:
As one would expect, the overwhelming majority (85%) of those who intend to vote for Brexit felt the Commission is ‘hostile’ or ‘neutral’ to City interests.

The reasons given for this perceived hostility include over-prescriptive regulation, failure to acknowledge that the City’s financial centre role benefits the EU as a whole, not just the UK, and a poor understanding within the Commission of the workings of financial markets. Some respondents expressed a belief that other EU members were “jealous” of the UK’s success in finance and actively discriminated against it. One respondent said that the Commission needed to be given “tight, confined, limited objectives”. Another added that it should have “less influence on regulations that directly affect the City”.

However, some felt that any negative vibes emanating from Brussels were due to the UK’s failure to advance the City’s interests. “Regulatory arbitrage remains, and UK political influence on financial markets issues in Brussels has diminished well below the level commensurate with the UK’s actual proportion of capital markets activity in Europe,” said one.

F Post-Brexit Arrangements

One of the arguments that pro-EU bodies (eg TheCityUK) make in favour of remaining in the EU is that, once out, we would never be able to negotiate a satisfactory relationship with our former colleagues. More eurosceptic groups (eg Business for Britain, Civitas etc.) argue that our trade deficit with the EU, and precedents set by countries like Norway and Switzerland, mean that we would have no problem negotiating a deal that would be satisfactory – to the
City in particular. We tried to test this by posing two questions. The first asked in general terms about post-Brexit arrangements:

Q9. If the UK decides to leave the EU, do you think it will be able to negotiate an arrangement that permits the City access to European markets on broadly satisfactory terms?

The results were pretty clear:

![Pie chart showing 42% Yes and 58% No]

Well over half of respondents (58%) doubted that the UK would be able to negotiate satisfactory access to European markets for the City if it decided to get out. The UK, as the demandeur with much to lose, would be in a weak bargaining position, and Continental centres would be eager to steal London’s crown. On the other hand, the substantial minority who thought the UK would be able to negotiate a satisfactory deal clearly believe that the rest of the EU would be keen to keep a large market on board and would be prepared to make concessions.

What is clear is that access to the Single Market is an important issue – particularly for those who want to remain EU members. Of those who felt the UK would not be able to strike a satisfactory deal, 84% would ‘probably’ or ‘definitely’ vote to stay in.

The second question was an open-ended one. It asked:

Q10. Would the models of Norway and Switzerland be deliverable, and viable, for the UK in the event of an exit?
The broad answer from both opponents and proponents of Brexit was ‘No’. The reasons ranged from the semi-frivolous (we have no ‘decent chocolate, proper mountains or an oil-based sovereign wealth fund’) to a quite reasonable suggestion that better examples might be Hong Kong, or even Canada. It was widely asserted that:

- Switzerland’s arrangement is something of a historical anomaly which, it has already been made clear, would not be made available to other countries; and

- both Switzerland and Norway are subject to a wide range of EU rules (and even budgetary contributions), without any corresponding voice.

Clearly, both countries are very different from the UK: they are small, specialised economies that are not in a position of strength vis-à-vis the EU. (As one euro sceptic put it, the only way they would be comparable would be if we deported 60 million people: “but which ones?”).

Even if they did provide models, most respondents said those models would not be attractive to the UK. As one put it: “They are on the receiving end of regulation, without a say.”

The underlying and bigger question (to which there was no clear answer because we did not ask it directly) was whether Britain could negotiate a “UK model”. Opinion was deeply divided. The 42% who answered “Yes” to the first question clearly felt it could: the UK is a major economy with which the EU would want to maintain a close relationship, and it would be able to win satisfactory terms. That, however, seemed to be a minority view.

G Post-Referendum Concerns

We asked two open-ended questions to assess major concerns for the health of the City if the UK decides to leave and if it opts to remain in the EU:

Q6. What are your main concerns for the future of the City if the UK decides to leave the EU?

and

Q7. What are your main concerns for the future of the City if the UK decides to remain part of the EU?

Once again, the answers were revealing. In or out, there is real concern that the City’s international standing is under threat.
Concerns about the future of the City outside the EU focused strongly on the threats to its position as an international financial centre. The potential loss of access to the EU Single Market would have wide ramifications if international financial companies ceased to see London as a gateway to the EU, and if the UK failed to secure a good post-Brexit relationship (which 58% of our respondents thought was unlikely). Respondents feared there would be a mass exodus to other EU financial centres, with Frankfurt heading the list followed by Paris, Dublin and Amsterdam.

Alongside that, London’s international stature would decline, and its ability to influence policy and business in international fora would diminish. Several respondents saw it becoming “an offshore centre” with little control over its destiny. Others suggested that life outside the EU would make the City appear a bit ‘shady’ – “once outside the EU, the UK will be portrayed in the same light as Monaco, not quite right for mainstream business”.

Further complications would arise if the EU insisted on tough conditions in its future relationship, either for punitive reasons or to ensure that the UK posed no competitive threat. As Nicolas Véron, a well informed commentator on European affairs, put it: “Bad blood with (rump) EU would lead to increasing barriers for cross-Channel business.”

A City consultant added:

“The Lear jets would be roaring out of City Airport in a flash if we left the EU.”

“A City consultant added:

“Over the long term, an EU financial centre will emerge, presumably in Frankfurt, and an increasing proportion of European financial business will be conducted there rather than in London. It's not a case of businesses deciding, the day after an ‘out’ vote, that London is irrelevant. But over the long term, there will be more and more reasons for financial business to be done in the EU rather than on an offshore island nearby.”

Another summed up the fear that foreign investors would shun London:

“In a world that is growing ever smaller, we need to assess the message that this would give to foreign firms thinking of investing in the UK. Never mind the fact that banks would need to subsidiarize into the EU to keep their EU passport and so, at the very least, would slow or halt their investment in their UK operation; never mind the fact that some financial companies from the Far East are already choosing Luxembourg over London as a hub for their EU operations; it just plain sends the wrong message of a cooperative and globally-minded location to conduct business.”
Some respondents felt the ramifications of Brexit could run even wider, by triggering a wave of protectionism in Europe as the EU, the UK and other countries moved to defend their markets. This would have a severe impact on economic growth throughout the region, which would be bad news for the UK, but which might also add to the EU’s current economic troubles and cause other countries to leave – “jeopardizing the stability of the EU completely,” as one put it.

That’s the majority view. However, a significant minority of respondents saw a very different picture. One investment manager, for instance, said that Brexit would be “massively liberating for, and supportive of, UK trade and business generally, including the financial services industry.” Others spoke of the “energising impact” of a British exit from the stifling low-growth embrace of the EU, and dismissed concerns about the departure of foreign banks as unlikely. A senior banker said: “It is important to recognise how entrenched a lot of the management of EU institutions is in London. This will not suddenly change.”

As for their concerns, should the UK decide to remain inside the EU, respondents (both pro-and anti-Brexit) were clear. They cited:

- the threat of stifling regulation;
- the danger that the EU itself will become increasingly uncompetitive;
- poor growth prospects for the EU vis-à-vis other regions; and
- the possibility that, for various reasons, UK influence will continue to diminish, even in a reformed EU.

Concerns about regulation – excessive, inappropriate, discriminatory, even overtly “anti-Anglo Saxon” – were uppermost for at least a third of respondents. One City consultant, for instance, said the City is handicapped by “increasing domination by a regulatory regime which is fundamentally hostile to free markets and driven by political rather than economic interests.” An influential investment manager added: “The City will be gradually strangled by EU taxes and regulations.”

Several respondents felt that the EU Commission actively discriminates against the City, and that it has an ultimate plan to transfer the EU’s financial centre to Paris or Frankfurt. This has become more likely because of the expansion of Qualified Majority Voting, which was perceived as weakening the UK’s ability to influence financial regulation.

“...more regulations like FTT [Financial Transactions Tax] that will make us less competitive on the world stage...”
A related issue is the declining competitiveness of the EU, largely because of red tape and what some respondents saw as an anti-free market culture in the main EU institutions. As one senior lawyer put it, there might be a “lack of competitiveness, resulting from a regulatory regime that sacrifices the particular interests of the City in order to embrace the less sophisticated financial markets of other EU members and particularly the inclusion in key roles of lesser talent from other EU jurisdictions.”

Linked to this, at least one respondent warned that the use of English as a *de facto* common language, both internationally and within the EU, would be threatened by Brexit.

The third danger that respondents identified was ‘eurosclerosis’ – a prolonged period of sluggish economic growth within a region that might prove incapable of reforming itself. The eurozone crisis adds to this risk. A senior former banking regulator summed up this view. His main concern was that “Europe becomes an increasingly modest and irrelevant part of global markets, with an inward-looking view that damages the UK’s ability to compete internationally.”

The final issue is influence – and the fear that Britain’s influence will diminish, even if we opt to stay in, not least because of “the essentially introvert nature of most Continental European countries” (as one former government Minister put it).

There was a fairly widespread concern that the UK would be in a weak position to influence European policy and rule-making for the financial markets because of the bad blood created by the referendum and the surrounding debate. As a venture capitalist said:

> “the failure of our government to be properly integrated into the EU makes us semi-detached politically. We had the chance to lead Europe, and the Conservatives and their bedfellows have thrown it away.”

Another senior former banking supervisor added that his main concern is that “the UK will retain its current approach to EU matters. The UK has a seat at the EU table - it should seek to use it as effectively as France uses its place.”

A linked concern is that the eurozone will increasingly dominate the EU’s affairs and that it will disadvantage non-members. The City is particularly vulnerable because of its position as the largest clearing centre for contracts in euros, something the European Central Bank may be keen to end. One respondent said that the task for the UK is:

> “to continue to influence in a positive way the EU financial services agenda, post-financial crisis, and particularly to counter the development and influence of the eurozone’s institutional framework for supervision/regulation of banking and other financial services
The latter will become increasingly difficult as more member states adopt the euro, and then the ECB will be able to roll out its blueprint for Banking Union across most of the EU, beyond the 19 current members of the Eurozone.”

The obvious solution to this problem – the UK joining the euro – was not mentioned as being likely by any of our respondents.

Among other concerns, one respondent said he feared for the EU if the UK remained within it: it would be better for Europe if we left. In a similar vein, another said that “the question of whether the UK is In will not really be settled, and the issue will gnaw away at us for years”.

H Priorities For Reform

Assume, for a moment, that (as this survey suggests is likely) the UK opts to remain in the EU. Then:

Q8. What should the City’s priorities for European reform be?

Responses to this open-ended question generally fell into two categories:

- specific measures to strengthen the Single Market in financial services; and

- higher-level reforms to improve the functioning of the EU and Britain’s relationship with it.

In the first category, the top priority was Capital Markets Union, which many saw as the most promising area for deepening the City’s penetration of Europe’s financial markets. One banker said: “CMU offers an opportunity for the City to gain and prosper from a more complete single market in capital – notably in areas such as infrastructure projects, securitisation, private placements, etc.”

One dyed-in-the-wool pro-European proposed an updated “Kangaroo Group” to press for CMU. Others mentioned the need to complete existing Single Market programmes for banking, investment management and professional services. But some doubted that this would ever come about. One banker was worried that “we will never get to a Single Market in financial services or a Capital Markets Union, with the end-result that the EU continues its slow decline – and that we are tied to it”.

Related to this, several respondents mentioned the need for the EU to complete trade agreements with third countries in order to enlarge EU firms’ access to other markets, the US and Far East in particular.
In the latter category, the governance of the EU was seen by both its supporters and opponents to be much in need of improvement. Specifically, for the UK, many respondents saw the need for measures to protect non-eurozone members from dominance by the eurogroup. For instance, there should be “protection of the interests of non-euro countries as Banking Union etc results in a more integrated eurozone”. Many respondents also saw the need to reform governance of the EU to make it simpler, less bureaucratic and more focused on subsidiarity. Beyond that, there was a widespread feeling that the EU must stop over-regulating and become more liberal if it is to restore its competitiveness. One payment specialist deplored “vast, unfathomable legislation leading to poor and onerous legislation”. As a former European regulator put it, “simplify the European rulebooks, analyse all rules on the basis of added-value [and] stop tax arbitrage”.

But it is not just the EU that needs to reform. Several respondents also said that the UK needs to improve its attitude towards, and relationship with, the EU to restore its influence. As one put it:

“Firstly, we have to convince the EU of the benefits of having a major global financial centre in London. There is too much London v Frankfurt/Paris parochialism at present. We then need to define what the single capital market should look like. It’s not clear that full integration is desirable or achievable, but we should prioritise dismantling barriers that will enable Europe to be more of a competitor for the US. We also need to do this before Asia gets its act together.”

One leading financial journalist suggested that the best thing the UK could aim for is “to be a beacon of integrity, ethics and high standards within the European system – an example that the rest of Europe might like to emulate rather than trash”. And they say journalists are cynical…
I  Cameron’s Negotiating Agenda

Finally, we asked respondents to weigh the importance of three areas where Prime Minister Cameron has indicated that he will (if re-elected) try to obtain concessions from Brussels. How important, we asked, are:

Q11(a).  The repatriation of powers over immigration?

Q11(b).  A lower UK contribution to the EU budget?
Of these three, **much the most important is clearly reform of QMV**. For respondents as a whole, 75% said it is ‘important’ or ‘very important’. Even among pro-Europeans, 69% felt it is something to work for.

That said, it is a highly complex, technical issue – and it is not obvious how well understood it is. Nevertheless, there is clearly a belief that it bears directly on the key question of the volume and quality of financial regulation. For many who support Brexit, the loss of direct control over financial regulation is a strong reason for voting to leave. One leading anti-Europe campaigner said there is “an inability to block measures inimical to UK financial services because of QMV, the overriding priorities of the Eurozone and lack of strong representation in Brussels”.

Of the other two negotiating objectives, a reduction in the UK’s contribution to the EU budget is a middling concern, while immigration control is seen as “unimportant” by nearly half the respondents. Given the City’s international focus and its dependence on a significantly non-British workforce, that is no great surprise. That said, one respondent pointed out that, from the City’s point of view, it would be good to ensure that “highly qualified candidates from the US, Canada, Australia, India or wherever are treated against the same system of merit as candidates migrating from the EU.”

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**Q11(c). Reform of the Qualified Majority Voting system?**

- Very important: 30%
- Important: 45%
- Unimportant: 25%

Cameron needs to deliver reform of QMV...
Appendix I

CSFI “Brexit” Questionnaire

1. If the government cannot reach a satisfactory agreement, and if, therefore, there is a vote on Britain’s membership of the EU in the next few years, will you?
   - Definitely vote to stay in
   - Probably vote to stay in
   - Probably vote to get out
   - Definitely vote to get out
   - I will not be eligible to vote (e.g. because I am not a UK citizen or permanent resident)

2. Regardless of the voting preference you stated in Q1, how likely do you think it is that the UK will still be a member of the EU in 2020?
   - Very likely
   - Likely
   - Unlikely
   - Very unlikely

3. It is usually said that the biggest benefit to the City of EU membership is the Single Market in financial services. Do you believe that a Single Market in financial services actually exists?
   - Definitely yes
   - Mostly yes
   - Hardly at all
   - Definitely not

4. To the extent that the Single Market does exist, has the City got its fair share of the business?
   - Yes
   - No

   If you answered ‘No’, please explain. What are the main impediments holding the UK back?

5. It is often alleged that UK regulators ‘gold-plate’ EU legislation – thereby making European rules more onerous than they need be, and putting UK firms at a competitive disadvantage in the EU market. Do you agree with this?
   - Strongly agree
   - Agree
   - Disagree
   - Strongly disagree

   Linked to this, do you agree with those who feel that our representatives in the European Parliament don’t fight hard enough in support of the City?
   - Strongly agree
   - Agree
   - Disagree
   - Strongly disagree
What do you feel about British influence on the Commission? Is the Commission:
☐ Broadly supportive of City interests?
☐ Neutral?
☐ Hostile to City interests?

6. What are your main concerns for the future of the City if the UK decides to leave the EU?

7. What are your main concerns for the future of the City if the UK decides to remain part of the EU?

8. If the UK stays in the EU, what should the City’s priorities for European reform be?

9. If the UK decides to leave the EU, do you think it will be able to negotiate an arrangement that permits the City access to European markets on broadly satisfactory terms?
☐ Yes, it will be able to negotiate a deal
☐ No, it will not be able to agree a deal

10. Would the models of Norway and Switzerland be desirable, and viable, for the UK in the event of an exit? If so, in what ways? And, if not, why not and where could we look for models?

11. Prime Minister Cameron has pledged to negotiate a package of reforms so that he can recommend the UK remains a part of the EU. The following are often mentioned as changes that he will seek; how important do you think they are? (Please tick one box per row).

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<th>Very Important</th>
<th>Important</th>
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<td>Repatriation of powers on immigration?</td>
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<td>A lower UK contribution to the EU budget?</td>
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<td>Reform of the Qualified Majority Voting system?</td>
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12. Who are you? (Please fill this out; but, if you don’t specifically permit us to use it, we will keep your identity confidential.)

Name:

Employer(s):
(Please enter ‘Retired’ if applicable.)

Age:
- □ 18-30
- □ 31-45
- □ 46-60
- □ over 60

Gender:
- □ Male
- □ Female

Are you? (Or, in the event that you are retired or ‘resting’, were you?) You may select more than one option.
- □ a retail banker
- □ an investment banker
- □ a risk/compliance professional
- □ a ratings professional
- □ a currency strategist/trader
- □ a venture capital professional
- □ a clearing/settlement/payments specialist
- □ a legal services professional
- □ an accountancy professional
- □ a consultant
- □ a financial adviser
- □ a technology specialist
- □ a regulator/supervisor
- □ other (please state):

13. May we use your identity in the report we intend to publish?
- □ No
- □ Yes
118. "THE CITY AND BREXIT: A CSFI survey of financial services sector’s views on Britain and the EU”
   April 2015. ISBN 978-0-9926329-4-6
   £25/$45/€35

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