TheCityUK

Making the UK the leading global financial centre:

An international strategy for the UK-based financial and related professional services industry

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About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes over 10% of the UK's total economic output and employs more than 2.3 million people, with two thirds of these jobs outside London. It is the largest tax payer, the biggest exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

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Foreword

The UK-based financial and related professional services industry is united in its aim to make the UK the world's leading International Financial Centre (IFC) within the next five years. This strategy, agreed across all parts of the industry, sets out how to do so. Achieving its aims will benefit customers and clients in the UK and around the world. Economically, it will create high-value, sustainable jobs and new skills, drive investment into businesses across the country and capture new foreign direct investment. There is therefore a strong common interest in industry, regulators and government working together to achieve global leadership for the UK's IFC.

The UK already commands formidable strengths as an IFC, including extensive financial and technological capabilities, quality legal and regulatory systems, a richly diverse and inclusive talent pool, flexible labour markets, a globally central time zone and an international language. Along with the US, the UK is one of only two full-service IFCs: it possesses expertise across all aspects of financial and related professional services – banking, insurance, capital markets, FinTech, asset management, law, accountancy, and consultancy.

The financial and related professional services industry employs over 2.3 million people across the country, two thirds of them outside London. The industry attracts significant inward investment to the UK and generates tax revenues that fund critical public services. A strong IFC has enabled UK businesses across all areas of the real economy to fund their growth plans and succeed in global markets. It has also made the UK one of the world's leading FinTech hubs and provided a platform for investment and growth in key strategic industries like life sciences. But that achievement needs constant renewal. Maintaining and strengthening the UK's position in financial and related professional services should be a top priority for policymakers so that citizens, customers, and clients can all benefit.

The UK will grow as an IFC if international businesses and investors feel that its businesses and infrastructure can provide more attractive products and services than counterparts in the likes of the United States, Hong Kong, and Singapore. The UK-based financial and related professional services industry is well positioned to deliver this. But its continued success cannot be taken for granted. By some metrics, the UK is losing ground: London is currently slipping further behind New York each year while other centres are strengthening. The UK therefore needs to adopt a relentless focus on strengthening its international competitiveness to win back the prize of being the world's leading IFC.

This strategy explains how London can again become the world's leading IFC – as it was until 2018[1] - by:

- **securing** the UK's financial and related professional services ecosystem by making it more competitive
- **growing** the UK's share of key global financial and related professional services markets in areas of current comparative strength
- **building** new global market capabilities around four core areas of future global demand where it is critical that the UK can offer world-leading services: financial and related professional services data and technology, global ESG markets, international investment opportunities and risk management.

1 Z/Yen, 'Global Financial Centres Index 24', (September 2018), available at: https://www.longfinance.net/media/documents/GFCI_24_final_Report_7kGxEKS.pdf

At the heart of the strategy is the need to compete by building on the strengths of the UK's IFC, aligning to those core areas of future demand and recognising how important it is that the UK be respected internationally as an attractive, innovative and trusted environment in which to do business.

This strategy has been developed through extensive discussions with the industry and its representative bodies, regulators and government. Having been developed in partnership, the strategy also needs to be executed in partnership. We therefore welcomed the Chancellor of the Exchequer's Mansion House speech in June 2021, where he set out the government's vision for how it could work with industry and regulators to enhance the UK as an open and global financial hub with a uniquely competitive marketplace that hosts businesses at the forefront of technological innovation, and which provides a world leading green finance offer.

The financial and related professional services industry is committed to creating high-quality products that can succeed in global markets, and to supporting UK government and regulators in a joint effort to promote UK competitiveness. It is ready to partner with government and regulators to realise these shared objectives, bolster the UK's international competitiveness, and take forward the priorities set out in this strategy. Working in partnership will be the best way of creating new opportunities to attract more investment to the UK, fuel jobs, drive growth and help businesses in all sectors across the UK to innovate and flourish.

Competing successfully for global leadership, whether in sport or business, requires a particular combination of capabilities and mindset. It is one that winners constantly strive to achieve and that is what industry, policymakers, and regulators now need to do in the context of securing global leadership for the UK's IFC.

Miles Celic

Chief Executive Officer, TheCityUK

Executive summary

This strategy aims to help the UK become the world's leading IFC by:

1. **securing** the existing open ecosystem that makes up the UK's IFC
2. **growing** the UK's share of key global financial and related professional services markets
3. **building** the UK's capabilities around the four core areas of future global demand where it is critical that the UK can offer world-leading services: financial and related professional services data and technology, global ESG markets, international investment opportunities and risk management.

All three elements need to run in parallel, always aligning to those core areas of future global demand, and be taken forward by industry working together with government and regulators.

The strategy identifies the following implementation pathways.

1. Securing the UK's IFC ecosystem by making it more globally competitive

With other IFCs determined to increase their own capabilities, the UK needs to secure the advantages it currently enjoys by ensuring that it remains an open and competitive market in which to do business and boosting its international competitiveness.

To do this, the UK needs to:

- Strengthen its capital markets and related infrastructure.
- Remain at the forefront of technology and innovation.
- Attract the world's talent in order to develop innovative products that attract global clients and customers.
- Ensure the UK's regulatory regime is respected and trusted worldwide.
- Support the effectiveness and competitiveness of UK law. While the UK is a leading destination for international businesses seeking to resolve disputes, other IFCs are emerging as key rivals.
- Encourage more inward investment by amending the tax regime, particularly for the financial services sector, and providing clarity on the UK's new investment screening laws.

Matching the industry's role in delivering on these objectives, the UK government should:

- Put in place coherent policies to develop home-grown talent and attract talent from overseas, including by reducing the processing times and costs for sponsorship visas for high-skilled workers coming into the UK.
- Ensure that the UK's regulatory regimes are seen to be predictable and based on evidence.
- Introduce a regular review of the UK's financial regulatory regime to ensure that it is proportionate, coherent, and achieving stated goals in the most efficient way possible, including ensuring proportionate and technology-neutral regulation of the UK's FinTech sector.
- Adopt an agile and dynamic regulatory approach, including by expediting the process for determining regulatory approvals.

- Adopt the recommendations of Lord Hill's review of the UK listings regime, particularly by allowing dual-class shares for businesses on London's premium market while ensuring proper governance and investor protection.
- Invest more in the UK judiciary and courts system to ensure the pipeline of commercially aware judges remains strong into the future and our judiciary continues to be a critical element in the promotion of UK law overseas.
- Reduce the overall tax burden on UK-based banks (higher now than in any other major IFC).
- Provide clearer guidance on the application of the National Security and Investment Act 2021.

2. Growing the UK's share of key global financial and related professional services markets

One of the best ways to help UK-based businesses expand into overseas financial and related professional services markets is for the UK to pursue an ambitious liberalising trade and investment policy, with trade agreements setting new global standards for coverage of financial and related professional services.

To achieve this, the UK should address issues like regulatory coherence, market access, investment protection, immigration, and the mutual recognition of professional qualifications (MRPQ). Each of these areas should be approached as part of a broader UK commitment to ensuring as much open trade as possible between well-regulated international markets.

It is the industry's job to exploit markets. To help it, UK trade and investment policy should aim to:

- Liberalise trade with developed markets such as the US, the EU, Japan, Switzerland, Hong Kong and Singapore, and deepen financial and related professional services relationships with the largest emerging markets, including China, India, Indonesia, and the Gulf states[2], leveraging the UK's position as an open, global financial hub to establish and enhance strong relationships with jurisdictions all around the world.
- Conclude regulatory agreements (especially recognition and/or deference agreements) that enable UK financial institutions to supply products and services across borders with ease.
- Secure international recognition for UK services expertise (professional qualifications) and enable UK experts to export solutions globally by improving labour mobility.
- Attract the next wave of foreign direct investment in the financial and related professional services industry by developing compelling value propositions for international business in new growth areas, equipping Foreign, Commonwealth & Development Office (FCDO) and Department for International Trade (DIT) staff at post with the industry skills they need to influence global investors, promoting the UK in key markets and highlighting competitiveness gaps which innovative players can address.
- Secure strong market access and investment protection provisions so that the UK is the most attractive place from which to invest in international markets.
- Conclude public procurement and competition agreements to open markets to UK firms.
- Reduce duplication and inconsistency across international tax rules.

2 The UK should devote particular attention to strengthening and leveraging its strategic relationship with the US. The UK and the US are the world's two largest IFCs: if they work together on policy and regulatory issues, they can significantly influence global standards and bring markets into alignment. Stronger regulatory cooperation with the US is a must.

3. Building global market capability in the key areas of future global demand

Business and government have complementary roles in seeking to deepen the UK's global market capability in the following areas, which are key sources of future demand for financial and related professional services:

- **Make the UK a global hub for data and technology** – the UK should use trade and investment policy to put itself at the forefront of global technology and innovation within a more integrated global digital market. Businesses will benefit from more open trade in data and the UK could become a data and technology hub, creating more high-skilled jobs, growth, and investment. Building a more integrated global digital market will also enable UK FinTech firms to benefit from greater economies of scale and compete globally. Trade and investment policy is one of a range of means towards this. The UK should start by championing common ground rules for digital trade that can be applied in the work of the G7, and included in UK free trade agreements (FTAs) and the planned WTO e-commerce agreement. The UK should then seek more targeted agreements on data transfers with key trading partners that address financial and related professional services-specific concerns around digital trade.
- **Put the UK at the heart of global sustainability markets** – given the UK's strong existing sustainable finance capabilities, it should aspire to be a world-leader in green and sustainable finance and the go-to partner for international businesses looking to manage and finance the green transition. The UK should seek to shape a global sustainable finance market to enable the growth of the UK's ESG finance and services offering. Trade policy and related international policies have a key role to play. An important first step is to work with partners in the G7 and G20 to create international standards for green disclosures and develop principles to allow different countries' ESG finance taxonomies to communicate with one another. Meanwhile, as UK financial and related professional services businesses take the lead in advising global corporates on their sustainability strategies, the UK should work with other governments to shape sustainability standards.
- **Make the UK the world's leading gateway to international investment opportunities** – the UK industry and government should help developing markets to take their place in the global trade and investment system in partnership with industry and position the nation as the location for global investors to access such markets. To achieve this, there needs to be a reform of the UK's listings regime to attract more international listings and develop new strategic partnerships to support emerging markets using UK standards and rule of law. The resulting additional global investment that will likely be directed through UK capital markets to developing world economies will help improve regional security, benefit consumers in the developing world and give UK businesses further opportunities to expand into these growth markets.
- **Position the UK as a world leader in risk expertise and risk management** – UK capital markets should be permitted to develop alternative risk transfer instruments such as catastrophe bonds, insurance-linked securities, and weather derivative contracts, attracting further capital to the London risk market. The UK should also press other countries to change any rules that limit international risk transfer. This will drive more insurance and reinsurance business into the global market. By spreading risk across borders, the market will become larger, more liquid and more resilient.

4. Paths to implementation

This three-pronged approach to helping the UK become the world's leading full-service IFC involves myriad tools and approaches. Some can be used by the UK alone but others, such as Free-Trade Agreements (FTAs), regulatory dialogues, multilateral trade and tax agreements, global regulatory standards, and bilateral investment treaties, require cooperation across borders.

While many of these are only suitable at a national or international level, targeted cooperation at state, regional or city level may deliver better outcomes.

Inevitably, cross-border agreements at any level can take years and will require input from business, government and regulators. But at every stage of implementation, all involved should:

- Focus on UK competitiveness: is this approach, whether by industry or government, helping the UK compete successfully for the prize of being the leading global IFC?
- Progress all three elements of the strategy (securing, growing, building) in parallel and with an eye to the four core areas of future global demand (data and technology, global ESG markets, international investment opportunities and risk management).
- Strike an effective balance between shorter- and longer-term delivery, and between the effort required and the impact likely to be achieved.

Conclusion

The UK can become the world's leading IFC within five years. Doing so will require it to out-compete its rivals through building on its strengths. Industry is united in its determination to achieve this ambition, and eager to work in close partnership with government and regulators to make this vision a reality. Success will benefit customers and clients in the UK and globally and deliver high value, sustainable employment and skills, as well as investment in businesses across the UK. There is therefore a strong common interest in industry, regulators and government working together to achieve global leadership for the UK's IFC.

Introduction

The success of any global strategy for UK's financial and related professional services industry depends on securing the UK's position as an international financial centre (IFC).

However, the international competitiveness of the UK as an IFC is not a given. The UK can only remain a leading IFC if corporations and investors continue to feel that its businesses and infrastructure can provide more attractive products and services, and its infrastructure a more conductive environment, than counterparts in the US, Hong Kong, and Singapore.

After being the largest IFC for much of the past few decades, London is now in second position to New York.[3] There are many studies setting out the UK's international strengths in financial and related professional services.[4] These include extensive financial and technological capabilities, reliable legal and regulatory systems, a deep talent pool, flexible labour markets, a globally central time zone and an international language.

The UK is also one of only two global full-service IFCs. Like the US, it possesses expertise across all aspects of financial and related professional services – banking, insurance, capital markets, FinTech, asset management, law, accountancy and management consultancy.[5]

The UK's financial and related professional services industry employs 2.3 million people across the country, two thirds outside London, generates large tax revenues and contributes to a major trade surplus in services. It has also secured striking levels of inward investment to the UK, helping to fund businesses across the country, and positioned the UK as a key hub for strategic, forward-looking industries like technology and life sciences. It should be among the UK's strategic priorities to strengthen its financial and related professional services industry and status as a leading global IFC. This is not only so that the whole country can further benefit from the industry's commanding international position. It is also because the UK's position requires constant renewal: IFCs have to run simply to sustain their position.

The UK's aim should be nothing less than to have the world's leading IFC.[6] Achieving this ambition is guaranteed. In fact, the UK could lose out to other IFCs currently ranked below it as its share of global financial business is, by some metrics, in decline. The Global Financial Centres (GFC) Index, published biannually by the Z/Yen Group, ranks the competitiveness of financial centres by assigning an overall 'score' to each city. The GFC Index ranked the UK as the world's leading IFC as recently as 2018, when it was superseded by the US. The latest report from March 2021 gives London its second lowest score since the report's inception.[7] The New Financial Global Financial Centres index 2021, published by New Financial, similarly shows that New York and London stand out as leading IFCs, but that New York a commanding lead over London in terms of purely international financial activity.[8]

3 See, for example, Global Financial Centres Index 29. (Z/Yen: March 2021). Available at: https://www.zyen.com/news/press-releases/press-release-global-financial-centres-index-29/ (Accessed 19 May 2021).

4 For example, Key facts about the UK as an international financial centre 2020, (TheCityUK, December 2020). Available at: https://www.thecityuk.com/research/key-facts-about-the-uk-as-an-international-financial-centre-2020/. (Accessed: 19 May 2021).

5 The table comparing the range of financial and related professional services capabilities of leading IFCs in TheCityUK's Vision report provides an illustration of this. See p22 in A vision for a transformed, world-leading industry (TheCityUK, July 2017). https://www.thecityuk.com/research/a-vision-for-a-transformed-world-leading-industry/ (Accessed: 19 May 2021).

6 Due to the trends of consolidation in international finance, it is unlikely that there will be more than a very small number of genuinely full-service IFCs. See Chen, K. and Chen, G. (2015). "The rise of international financial centers in mainland China", Cities, 47, pp10-22, esp. p10. Available at: https://people.geo.msu.edu/guochen/download/article_2015_cities_equalcontribution_tier-one.pdf (Accessed 19 May 2021).

7 GFCI Over Time (Z/Yen, March 2021). Available at: https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/gfci-29-explore-data/gfci-over-time/ (Accessed: 20 May 2021).

8 NB. New York has a much greater lead when domestic financial activity is included in the measure, given the scale of the US domestic market. See Driving Growth – the New Financial global financial centres index (New Financial, June 2021). Summary available at: https://newfinancial.org/report-driving-growth-the-new-financial-global-financial-centres-index-2/ (Accessed: 09 July 2021)

In terms of sector-specific data, the last decade reveals a trend of (moderate) UK absolute growth offset by relative decline across global financial and related professional services rankings. For example, the UK's global share of:

- cross-border bank lending fell from 17.8% in 2010 to 15.2% in 2020, even as total UK annual cross-border lending rose from $5.3trn to $5.4trn
- insurance premiums fell from 6.9% in 2010 to 5.8% in 2019, even as the value of UK insurance premiums rose from $300bn to £366bn
- pension assets fell from 8.6% in 2010 to 6.8% in 2020, even while UK pension assets grew from $2.3trn to $3.6trn
- hedge fund assets fell from 20.7% in 2010 to 14% in 2019, even as UK hedge fund assets grew from $290bn to $447bn.

More worrying is the decline of UK capital markets. International listings are a critical indicator of IFC success.[9] However, between 2010 and 2020 the number of international companies listing on the London Stock Exchange fell from 599 to 370.[10]

The UK has also fallen behind the curve on capital markets innovation, being slow to consider the use of dual class share structures and permitting more innovative financial instruments. This has allowed New York to surge ahead as a listings centre, with Hong Kong hot on London's heels. Meanwhile, as global technology and life sciences businesses look to list elsewhere, the UK is at risk of becoming a '20th century' listing centre that is better at offering investors access to traditional businesses than opportunities in emerging global growth segments.

These are challenges for industry and government alike. As the UK is already a global leader across so many financial and related professional services sectors, it is, perhaps, harder for it than for some smaller financial centres to significantly grow its global market share. However, this does not mean there are no big wins left for the UK. Areas such as digital, ESG, international investment and risk management offer significant growth potential. But positioning the UK for future growth will take time and require ongoing effort.

This strategy aims to help the UK become the world's leading IFC by:

1. **securing** the UK's IFC ecosystem by making it more competitive
2. **growing** the UK's share of key global financial and related professional services markets
3. **transforming** the UK's position by building new global markets around the key areas of future global demand.

9 Analysis of the relative and absolute strength of particular sectors is by TheCityUK based on data from the London Stock Exchange and the World Federation of Exchanges, Bank of International Settlements, Swiss Re Institute, Willis Towers Watson, Investment Association and Barclay Hedge.

10 It is important to note that there are different ways of accounting for the number of international listings. The figure cited is sourced from World Federation of Exchanges and refers to companies incorporated outside the UK and listed on another exchange in addition to LSEG. LSEG reports the number of international companies listed on the exchange as 752, based on the country of the company's primary business.

Securing the UK's IFC ecosystem by making it more competitive

The increasing competitiveness of other IFCs is challenging the UK's global position. UK-based financial and related professional services businesses' loss of market share has been gradual, and Brexit prompted many multinational corporations to strategically review their entire EMEA operations, with results that are still playing out. While the UK remains an attractive place to do business, rival IFCs are also bolstering their offers. This increased competition means that the UK must take steps to secure its international position.

From an industry standpoint, the following areas of the UK's international competitiveness require immediate attention.

1.1 Capital markets infrastructure

To regain its position as the world's leading IFC, the UK needs to have the world's best market infrastructure – and this requires changes to its capital markets rules.

The move to exempt sovereign and state-backed bonds from the requirement to publish an approved prospectus to list has helped London improve its position as a venue for government debt.

Now that the government has accepted the recommendations in Lord Hill's review of the UK listings regime, the next step is to work with regulators to take them forward. This will involve progressing the proposed measures that the FCA is currently consulting on to allow dual-class share listings for businesses on London's premium market while ensuring high quality governance and investor protection, and enabling the rise of alternative asset vehicles like SPACs.

It is encouraging that the Chancellor intends to deliver an annual report on the state of the City and its competitive position to Parliament.

The government and regulators should also continue to work together to change the UK regulatory regime to allow a new UK long-term asset fund (LTAF) onto the market, as this could help innovative UK firms to access private markets more effectively. Government should also work to enable an onshore professional fund, which could appeal to professional investors.[11]

1.2 Talent

Financial and related professional services businesses remain determined to attract talented workers to develop innovative products that appeal to global clients and customers. But there are new regulatory obstacles. True, the new skilled worker visa makes it easier for financial and related professional services firms to attract high-quality global talent, but the cost of sponsoring these visas is high compared to competing locations and the processing time is too long. The UK should deliver targeted high-skilled visa reforms, like lowering sponsorship fees to match administrative costs and accelerating processing times.

1.3 Law

The UK is the world's second largest legal market and the jurisdiction in which international businesses choose to resolve disputes. However, other centres are emerging as key rivals. For example, the Singapore government is investing in its dispute resolution system to ensure it is efficient, widely known, and presided over by an able and well-renumerated judiciary.

11 More details about the kinds of policy measures that are needed to support the development of these new instruments have been developed by the Investment Association, see especially Future of UK Funds Regime.
Available at: https://www.theia.org/campaigns/future-of-uk-funds-regime. (Accessed: 19 May 2021).

To preserve the UK's status as an international legal centre, there needs to be more investment in the UK judiciary and courts system to ensure that the best commercial barristers and solicitors aspire to become UK judges. Members of the UK judiciary should also be encouraged to promote the effectiveness of UK commercial law overseas, and resourced to do so around the world especially in common-law jurisdictions like India where the reputation of UK law remains strong.

1.4 Tax

UK tax rates should remain among the most internationally competitive in comparison to other G7 economies, as the matrix for competitiveness between rates, taxable base, administration and policymaking remains the same.

However, measures such as the increases in insurance premium tax, the introduction of the bank surcharge, the bank levy, non-deduction of conduct related charges and a more restrictive loss offset regime for banks means that the financial services sector is both one of the most highly-taxed sectors in the UK, and taxed considerably more than rivals in competitor financial centres.

For example, the total tax rate for a London bank is 46.5%, 13% higher than a New York based bank, and also higher than paid by counterparts in Hong Kong, Singapore and Frankfurt. As long as taxes on the industry remain disproportionately high, financial institutions will be restricted in their ability to support the growth of businesses across all sectors of the UK economy.

It is essential to improve the UK's tax competitiveness, increase transparency through better engagement with industry and bolster the evidence base for policymaking which in turn will help provide certainty and stability.

The government's review of the bank surcharge, conducted with a view to ensuring that rates of UK taxation are competitive with major competitors, is an encouraging sign, as is its review of the tax treatment of fund management. The tax position of the UK asset management sector needs to be internationally competitive: VAT is applied on UK funds in a way that means that the tax burden on them is much higher than in the US, Hong Kong, Singapore, and Switzerland, putting UK fund managers at a disadvantage when they try to sell UK funds overseas. The way VAT is applied to the management of offshore funds should be extended to comparable UK vehicles.

At OECD level, the previously agreed financial services exemption from the reattribution of taxing rights under Pillar One of the OECD proposals (adopted because of the highly regulated nature of financial services) should be maintained. The UK should also continue to work with the OECD to ensure that insurance specificities are taken into account in calculating the tax base for the global minimum tax under Pillar Two of the OECD proposals.

1.5 Inward investment

In order to foster business growth across the country, especially in key strategic sectors like technology and life sciences, the UK needs to attract more inward investment. Industry can help attract the next wave of foreign direct investment into the country by developing compelling value propositions and equipping Foreign, Commonwealth & Development Office (FCDO) and Department for International Trade (DIT) staff in Embassies and High Commissions with the industry skills they need to influence global investors when promoting the UK in key markets.

At the same time, there are policy measures that the UK government can take to boost foreign direct investment (FDI). It is encouraging that the UK has created a new Office for Investment to partner with industry to drive more foreign investment to the UK. Government and industry should use the Office as a forum to consider how to optimise the UK's inward investment regime. Meanwhile, the government's new Investment Council could also serve as an important mechanism for enabling both industry and government to galvanise investment into the UK.

However, the major recent policy development affecting FDI into the UK is the National Security and Investment Act 2021, which gives the government powers to screen investments on the basis of 'national security' (currently undefined) and provides for a mandatory filing regime under which investors must inform UK authorities about significant investments into businesses engaged in activities in 17 sensitive sectors, plus a voluntary disclosure regime for investors acquiring assets in any sector.

Without clarity on which transactions are relevant and what 'national security' means, vast numbers of transactions could be submitted for review, adding significant costs to investors, and deterring future investment. Further guidance, plus regular reporting on the Act's operation, is needed so that international investors continue to feel welcome at a time when global FDI levels are dropping, competition for global investment is increasing, and France is challenging the UK's longstanding position as the leading destination for FDI in Europe.[12] Above all, it is critical that any investment screening process can be completed quickly and within set timeframes.

1.6 Technology

FinTech is transforming financial services. London is one of the world's top five FinTech hubs with FinTechs employing over 76,000 people in the UK. Industry experts are leveraging developments in AI, blockchain, the Internet of Things and quantum computing to drive further productivity improvements and better services. The UK needs to remain at the forefront of innovation in financial and related professional services in order to secure its position as a leading IFC.

The industry can do much to enable the UK to grow as a technology hub. However, the UK needs also to shape an innovation friendly technology ecosystem by maintaining a principles-based, outcome-focused approach to FinTech regulation and working to avoid any potential overlap of new FinTech rules with existing regulatory regimes. The UK should consistently craft proportionate and risk-based technology regulation, and ensure that its rule book is technology neutral rather than targeted towards promoting the adoption of specific technologies.

The Kalifa Review of UK FinTech set out a roadmap for creating an environment that supports technology innovation. The UK government response to the Kalifa review's findings has been encouraging: government should continue to shape a new sandbox for financial market infrastructure (a scalebox) and work with industry and regulators to consider the most effective way of making the UK a centre for new technologies like cryptoassets and stablecoins. Meanwhile, the UK should continue to invest in upgrading its technology infrastructure, including in areas like broadband speeds, where the UK scores below the world's other leading IFCs.

12 See, for example, Foreign investors (slightly) prefer France to UK, study finds (Politico, June 2021), available at: https://www.politico.eu/article/foreign-investors-slightly-prefer-france-to-uk-study-says/

1.7 Policy and regulatory stability

Businesses value certainty and predictability. The UK has undergone many policy changes in recent years and the pace of legislative and regulatory change has accelerated. Some major regulatory interventions – such as urging financial institutions to suspend dividends in 2020 and H1 2021 – have raised the cost of capital in the UK.

The pace and scale of future changes to the UK's legislative and regulatory framework should be managed in a way that ensures that the UK avoids uncertainty for international business looking to invest in the UK. In the short term, the UK should expedite the process for securing regulatory approvals (model approvals from the Bank of England can take around three to four years at present) and consider introducing a regular (say, five yearly) review of the UK's financial regulatory regime to ensure that the rules are proportionate, coherent, and achieving their stated goals in the most efficient way possible. Eliminating outdated regulation is as important as developing new legislation that is fit for purpose.

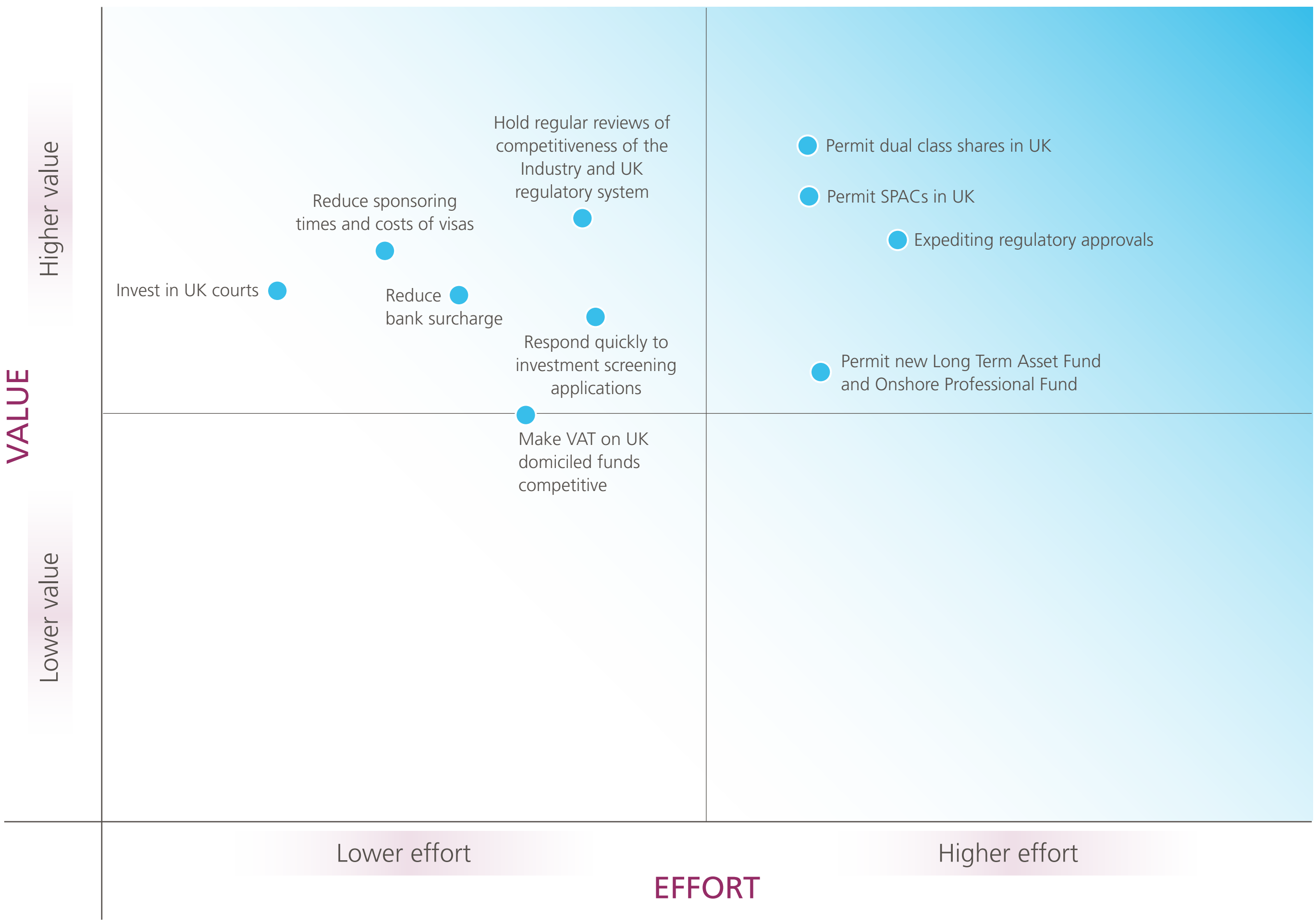
In addition, whenever any regulator or government department is considering any policy or regulatory cost benefit analyses on proposals affecting the financial and related professional services industry:

- Policymakers should consider how their proposals might affect the UK's competitiveness, and give due weight to the answer when conducting their analysis. As HM Treasury set out in its strategy: 'A new chapter for financial services', which accompanied the Chancellor's 2021 Mansion House speech, the government should tailor the UK's regulatory framework to ensure the UK is recognised internationally as one of the safest and most competitive places to locate financial services businesses and activities. As always, it is important to maintain the political independence of UK regulators.
- Officials and regulators should follow a measured, evidence-based approach to policy reform, with minimum 12-week consultation periods in which industry stakeholders are invited by the relevant government department or regulator to respond with feedback on proposed policy goals and analysis of the possible consequences of proposed measures, intended or unintended.
- Policymakers, regulators, and industry must be joined up when promoting the UK as an IFC. For example, when regulators participate in international forums (e.g. the International Association of Insurance Supervisors), they should see themselves as ambassadors for the UK and its financial services sector, not simply technical experts on regulation.

Summary

How to secure the existing ecosystem that makes up the UK's IFC			
Core competitiveness issue	**Short-term measures**	**Medium-term measures**	**Long-term objectives**
Upgrading market infrastructure	Permit a new class of dual-ownership share structures to draw more international IPOs to the UK Change the listing rules to permit UK SPACs and encourage more alternative assets in UK markets	Allow the creation of new types of fund to address changing customer needs	Ensure that the UK capital markets are once again the leading venue for international listings and can innovate to compete with key exchanges in the US and Hong Kong
Tax	Remove the bank surcharge so that taxes on UK-based banks are more in line with the taxes on banks in other leading IFCs Extend the current VAT treatment available on the UK management of offshore funds to the management of comparable UK vehicles	Maintain financial services exemption from the reattribution of taxing rights under Pillar One of the OECD proposals Ensure that insurance specificities are taken into account in calculating the tax base for the global minimum tax under Pillar Two of the OECD proposals.	Ensure the total tax burden on UK-based financial and related professional services firms is internationally competitive
Access to international talent	Reduce sponsorship costs and processing times for visas for highly skilled workers	Create mobility corridors for highly skilled workers between the UK and key trading partners	Make the UK a talent hub that produces innovative financial and related professional services products and sells them overseas
Support for the effectiveness and competitiveness of UK law	Support the competitiveness and effectiveness of the judicial system	Invest in the judiciary and courts system to ensure that the UK continues to attract leading commercial barristers and solicitors into the judiciary and remains renowned for its judicial expertise	Maintain the UK's position as a leading centre for legal services and international commercial dispute resolution
Maintaining the UK's reputation for openness to productive foreign direct investment	Provide clear guidance on the operation of the UK's new investment screening regime under the National Security and Investment Act so that investors can understand how it functions	Respond quickly to applications to invest in UK businesses made under the Act to avoid uncertainty about the validity of investments in the UK	Ensure international investors are comfortable with the UK's investment screening regime and continue to invest in the UK, including in critical growth sectors like technology and life sciences
Remaining at the forefront of technology innovation	Create a new sandbox for financial market infrastructure (a "scalebox")	Adopt a new regulatory system as a basis for the UK becoming a centre for new technologies like cryptoassets and stablecoins	Make the UK a leading global technology hub whose financial and related professional services businesses provide leading digital solutions to clients overseas
Policy and regulatory framework	Expedite the process for securing regulatory approvals Chancellor to deliver an annual report on the competitive position of the City	Introduce a regular (c. five yearly) review of the international competitiveness of the UK policy and regulatory regime for financial and related professional services	
Industry will play its part in all these initiatives by providing the technical input and investment needed to complement steps by government and regulators to strengthen the UK's competitiveness. As the UK becomes ever more internationally competitive, industry will be instrumental in boosting investment in businesses across the UK, leading to new high-skilled jobs and further offerings of competitive products and services for the benefit of UK and global consumers.			

Securing the UK's financial and related professional services ecosystem



Growing the UK's share of key global financial and related professional services markets by using trade and investment policy

For the UK to remain globally competitive,the industry's own efforts will need to be supported by a trade and investment policy which develops trade agreements that set a new global standard for services liberalisation to shape a world with more open trade.

UK-based financial and related professional services firms do not have the benefit of a large home market like their peers in the US, Japan or China. But, the right trade and investment policy can expand the addressable market available to UK firms, providing them with greater economies of scale, spurring greater innovation and specialisation, especially in key innovative sectors like FinTech and GreenTech, and encouraging the development of leading UK products and services for global markets.

Given the UK's strong comparative advantage in high-value services, UK financial and related professional services businesses are ideally positioned to capture a leading share of global financial markets, provided the UK advances services trade goals like regulatory coherence, market access, investment protection, immigration, and the mutual recognition of professional qualifications (MRPQ).

A critical prerequisite for putting the UK at the forefront of services trade policy is to ensure that UK policymakers have access to up-to-date, reliable data about UK services trade. Around the world, services trade data is notoriously less reliable than goods trade data, blurring the services trade picture and obscuring trade negotiators' vision of where to seek mutually advantageous outcomes. If the UK could source data that captures the full extent of the UK's strengths in services trade - and industry can help guide officials towards more accurate data on this point - then policymakers would be better equipped to strike high-quality trade deals. It is encouraging that the DIT is conducting a review of its trade modelling practices and vital that it continues to work with the Office of National Statistics (ONS) to equip UK negotiators with the best tools to argue the case for more open trade.

Trade agreements and economic diplomacy take time, so policy needs to focus on the priority markets for the UK's main exporting industries. These are as follows:

Figure 1: Developed markets – the industry distinguishes between Tier 1 markets which have significant economic opportunities such as the US, EU, Japan, Switzerland, Hong Kong and Singapore, and Tier 2 markets which have smaller economic impact such as Canada, Australia and New Zealand. Members particularly emphasised the need to strengthen the UK-US relationship: the UK and the US are the world's two leading IFCs and strategic cooperation between them is key to shaping future financial markets. The UK must ensure that it remains the most attractive international base for US financial and related professional services businesses and prioritise deepening financial regulatory alignment with the US to create a more integrated transatlantic market.

Figure 2: Developing markets – the industry distinguishes between Tier 1 developing markets, which provide the most commercial promise, including China, India, Indonesia, Saudi Arabia, and Russia, and Tier 2 developing markets which offer fewer overall commercial opportunities such as Malaysia, Brazil, Kenya, Vietnam, Qatar, Bahrain, UAE, Kuwait, Ukraine, South Africa, Nigeria and Kazakhstan. A wide range of members have interests in Tier 1 developing markets; there is far more variation among members as to their level of engagement in Tier 2 developing markets. As economies grow and trading patterns shift, it is, however, highly likely that some Tier 2 markets will become Tier 1 markets.

Similarly, it is likely that a wider range of developing countries will, over time, become Tier 2 markets. Industry will continually adjust to changing trade and investment dynamics, and search for ways of reaching new markets and new customers, just as it has done in recent years by considerably expanding its footprint in Indo Pacific markets like Indonesia and Vietnam.

Figure 1: Developed markets

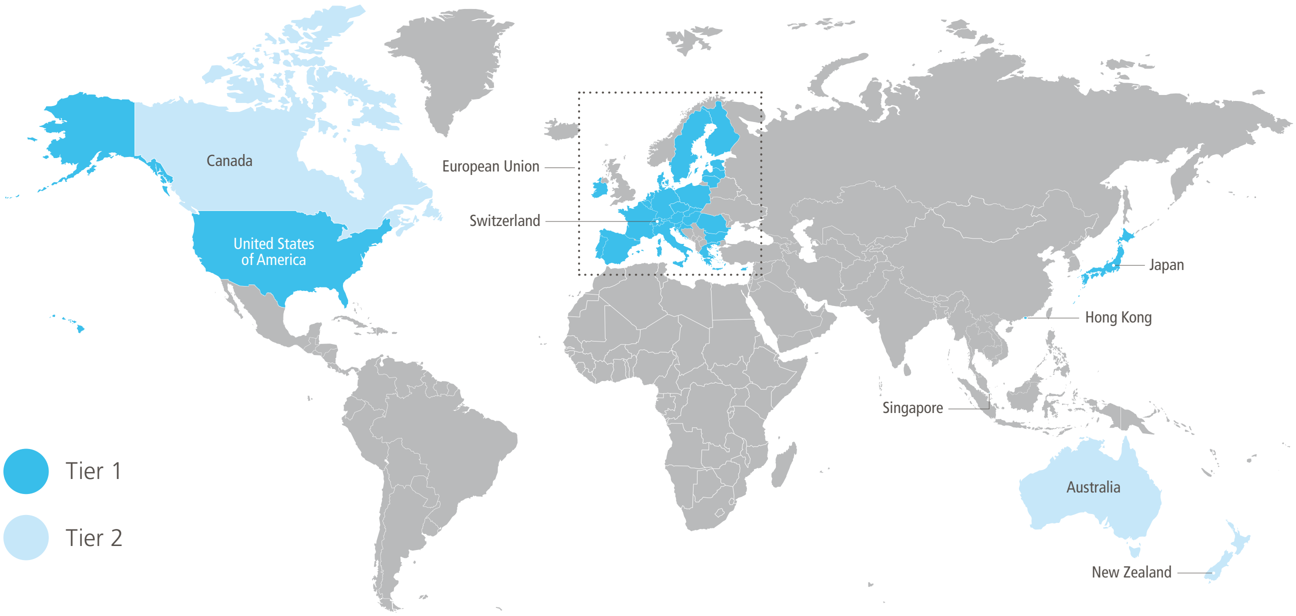
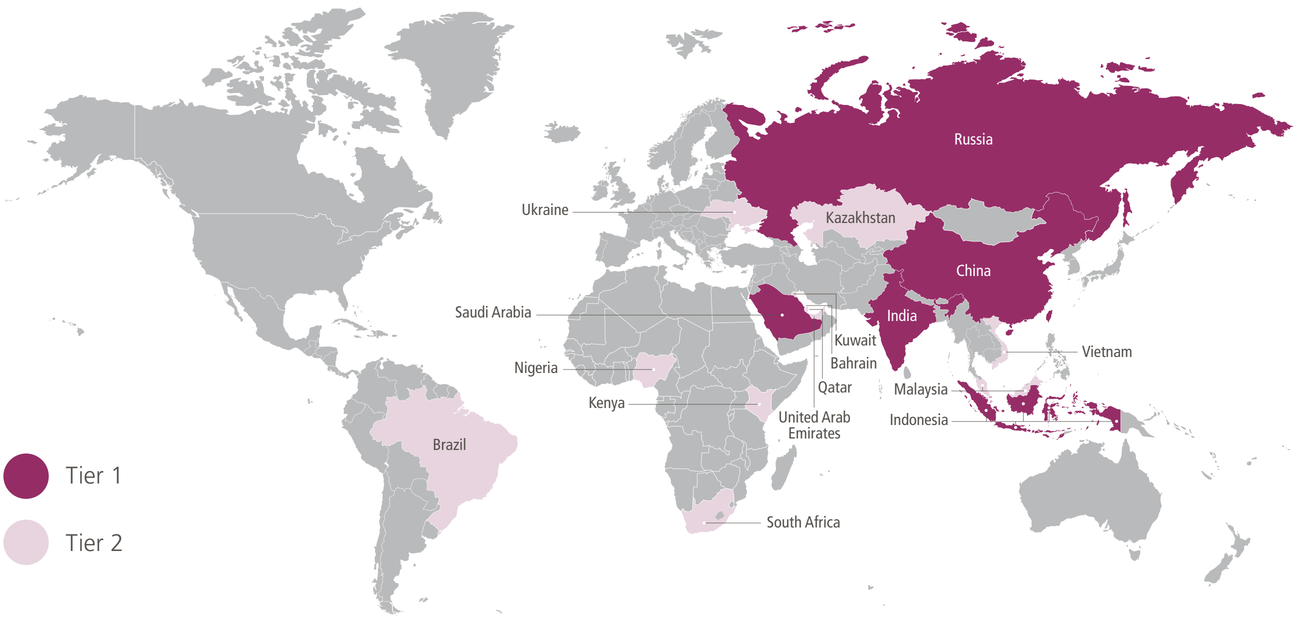


Figure 2: Developing markets



To enable UK financial and related professional services firms to achieve their ambitions in these markets, UK trade and investment policy should aim to:

- Conclude regulatory agreements (for example, mutual recognition and/or deference agreements) that enable businesses to supply their products and services across borders with ease.
- Secure recognition for UK services expertise and enable UK experts to export solutions globally through agreeing MRPQ agreements and improving the movement of professional workers.
- Secure strong market access and investment protection provisions so that the UK is the most attractive place from which to invest in international markets.
- Conclude public-procurement and competition agreements that will open up new markets.
- Reduce duplication and inconsistency across international tax rules.
- Attract the next wave of foreign direct investment in the financial and related professional services industry by developing compelling value propositions for international business in new growth areas, equipping staff at post with the industry skills they need to influence global investors, promoting the UK in key markets and highlighting competitiveness gaps which innovative players can address.

In all cases, industry can help government and regulators deliver on those goals by providing relevant technical information, on a market specific basis, about how to achieve the above goals and how delivering on these ambitions would benefit the UK as a whole.

It is not possible to prioritise strengthening trading ties with all markets simultaneously. UK trade and investment policy should prioritise developing ties with Tier 1 markets in both the developed and developing world as these are the markets that offer the greatest commercial potential. Some elements of how these objectives can be taken forward need to be worked out on a market-by-market basis. But the industry's overarching vision for how to deliver on each goal is set out below.

2.1 Regulatory agreements

The quickest way to boost financial and related professional services trade is to make different regulatory regimes more compatible. Deference or recognition agreements, under which foreign regulators permit UK businesses to operate in their market on the basis that they are appropriately regulated in the UK, or UK regulators permit overseas businesses to operate in the UK market on the same basis, are good ways of doing this. With greater compatibility across borders, UK and international financial and related professional services businesses will be able to operate much more efficiently abroad, dramatically expand their global footprint and drive more business back to the UK.

Such agreements take time and effort. However, given their potential value to the UK economy, the investment will be worth it.

At a multilateral level, the UK should champion the WTO Joint Statement Initiative on Domestic Regulation to secure agreement around key regulatory standards and processes.

Regulatory dialogues may often start as 'shallow' dialogues focused on process (in which regulators share best practices) but the UK should seek to convert these into 'deep' dialogues which focus on substantive alignment, which might lead, for example, to recognition and/or deference decisions. At a bilateral level, industry supports UK economic diplomacy and encourages the government to continue to invest heavily in existing UK-US regulatory dialogues like the US-UK Financial Regulatory Working Group (FRWG) and draw on industry support where needed to demonstrate the tangible benefits that will flow to consumers as well as businesses. Even small advances in UK-US regulatory alignment could be very positive for the UK as an IFC.

As the UK seeks agreements with its global trading partners, future FTAs should:

- Create a framework for voluntary regulatory cooperation.
- Establish regular regulatory dialogues.
- Encourage industry engagement with that regulatory dialogue.[13]
- Require regulators to follow good practice, which includes:
    - transparent decision making to ensure that affected businesses can review and comment on proposed regulatory measures
    - having clear rules on how regulators will engage with applicants for a licence, including timelines and fees.
- Have regular review schedules to allow for regular updating of areas covered under the regulatory dialogue set up through the FTA.

The FTAs should also encourage UK and host-country regulators to:

- Work to achieve compatibility of their regulatory and supervisory frameworks for financial services.
- Develop consistent regulatory approaches on an outcomes basis and defer to the regulatory frameworks of the other party.
- Consider aligned approaches to sustainable finance and key emerging regulatory issues, especially around new financial services, FinTech, cybersecurity and AI, to prevent fragmentation in key future markets.

2.2 The recognition of professional qualifications

UK professionals such as lawyers and accountants are respected throughout the world and are often the first choice of international businesses looking for commercial solutions. To enable UK professionals to supply services abroad, the UK needs agreements on the recognition of professional qualifications (RPQ).

Ideally such agreements would automatically allow UK professionals to practice in the host country. If not, there should be a clear framework and timetable for discussions between the UK and host country governments (or professional bodies) with a view to agreeing on RPQ arrangements. It is important that these agreements do not prevent individual regulatory authorities (including individual Bars and Law Societies) from seeking RPQ agreements with national and/or regional counterparts.

2.3 Movement of professionals

Trade in professional services relies on professionals visiting clients overseas to provide advice. The UK should therefore aim to agree on the following:

- A new flexible work/travel visa that combines the efficiency of a visa-free business travel regime with the flexibility of a short-term work scheme. There is a sharp distinction between activities that require a work visa and those that are permissible as a business visitor. The UK should agree a new visa system with trading partners whereby international staff can, without first needing to obtain a visa, transfer to their employer's home/host country office for up to six months to work, conduct work experience, provide short-term cover, support internal projects or deliver services to clients.

13 Industry is often best placed to advise on how regulatory issues have adverse impacts on cross-border trade and which regulatory issues on the horizon are most likely to become future problems. Without industry feedback and support, dialogues between regulators can become detached from commercial realities; with such support, they can produce better outcomes.

- Ways to reduce visa-processing times and administrative costs – the immigration rules on entering as a contractual service supplier should be clear, including detailed information on process, cost and timeframes. Visa application fees should not exceed the cost of processing an application.[14]
- More flexible intra-company transfer (ICT) visa requirements.
- A list of permissible activities for highly-skilled workers in host countries that is as clear and comprehensive as that in the UK's own immigration rules.
- Reciprocal youth mobility schemes with all trading partners.

2.4 Investment protection and promotion

The UK should position itself as the best place in the world to receive FDI and from which to make international investments. The industry can help the UK become more attractive to international investors by developing compelling value propositions for international business to support new growth areas in the UK, working with government to promote the UK in key markets and highlighting competitiveness gaps, such as some of the implementation of the UK's investment screening rules, which might restrict FDI into the UK.

The industry already enjoys the benefits of longstanding UK investment protection agreement. However, these agreements should be continually updated and improved in order to make the UK an even more attractive base for global investors seeking to access key international growth markets.

Investment protection falls into two categories: pre- and post-establishment protection. Pre-establishment protection covers the rights of UK businesses to invest in a host country without restrictions. The UK should conclude FTAs that remove:

- Foreign investor equity caps.
- Joint venture requirements.
- Economic-needs tests.
- Restrictions relating to the corporate form of a service supplier.
- Restrictions on the temporary entry and stay of:
    - intra-corporate transferees
    - business visitors
    - contractual services suppliers
    - independent professionals.
- Residency requirements for certain business personnel.

In terms of post-establishment protection, UK businesses that have invested overseas need to be confident that they are protected against practices by the host state that reduce the utility or value of their assets.

To this end, UK FTAs should contain investment protection dispute resolution mechanisms, such as Investor State Dispute Settlement (ISDS). The definition of investment within investment protection provisions should be broad, going beyond covering the sunk capital costs of an investment and extending to including the value of the long-term income stream that would arise from the investment.

The UK should also seek to conclude the WTO Joint Statement Initiative on Investment Facilitation.

14 For a breakdown of how far sponsorship costs exceed true administrative costs, see chart on p60 of "International trade agreements and UK immigration policy: a practical blueprint for evolution"(TheCityUK, September 2021). Available at: https://www.thecityuk.com/assets/2020/Reports/cfe0ef1b16/International-trade-agreements-and-UK-immigration-policy-a-practical-blueprint-for-evolution.pdf

2.5 Competition

UK financial and related professional services businesses have a strong comparative advantage and are well positioned to capture increased market share overseas. UK trade policy should focus on ensuring a level playing field for these firms in international markets.

UK FTAs should:

- Ensure that the public-procurement process for services (whether at a national or sub-national level) is open and competitive.
- Discourage subsidies and other market-distorting behaviour.

FTA partners that have not already done so should be asked to sign up to the WTO's Government Procurement Agreement.

2.6 Preventing duplicative and inconsistent tax systems

Conflicting tax regimes affect the industry's ability to operate internationally. The UK should pursue double-taxation treaties with other countries or agree international rules (e.g. via the OECD) to overcome these barriers.

Summary

How to grow the UK's share of key global financial and related professional services markets using trade and investment policy

Core trade and investment policy issue	Short-term measures	Medium-term measures	Long-term objectives
Strengthening UK regulatory coherence with international trading partners (within or outside of FTAs)	Conclude "shallow" regulatory agreements that increase regulatory exchanges with key trading partners Continue to focus on developing "deeper" regulatory coherence agreements with leading trading partners	Work with other countries to conclude the WTO Joint Statement Initiative on Domestic Regulation	Achiever "deeper" regulatory agreements that deliver deference or mutual recognition with a wider range of key UK trading partners
Market access and investment protection (pre-establishment)	Develop compelling commercially focused value propositions to attract new FDI into growth areas of the financial and related professional services industry Secure expanded market-access rights for UK financial and related professional services businesses to operate overseas and invest in as wide a range of industries and sectors as possible internationally without being subject to onerous requirements	Work with other countries to conclude the WTO JSI on Investment Facilitation. Seek to narrow the scope of the prudential carve-out and make it challengeable at the WTO and in bilateral agreements	Work to ensure global investors see the UK as the optimal gateway for accessing international investment opportunities
Post-establishment investment protection	Conclude investment protection mechanisms with international partners to provide UK investors with greater protection overseas		Work to ensure global investors see the UK financial and related professional services industry as a reliable conduit for bringing to fruition investment opportunities around the world
Immigration	Agree cheaper processing costs for visas and quicker processing times for securing visas for intra-corporate transferees and services providers	Agree pathways to creating more flexible short-term work/travel visa categories	Allow UK financial and related professional services professionals to travel with ease to key trading partners to sell their services Make the UK a talent hub for financial and related professional services

Mutual recognition of professional qualifications	Conclude MRPQ framework agreements within FTAs	Work with key trading partners and professional bodies to conclude particular MRPQ arrangements under the framework agreements	Have UK services expertise recognised by all of the UK's key trading partners
Competition	Joint government/ industry pressure for effective competition regimes in all trade partners, and pro-competitive sectoral regulation	Ensure that the public-procurement process for services in overseas markets (at all levels of government, national, regional, and municipal) is open and competitive Discourage subsidies and other market-distorting behaviour	Ensure that UK financial and related professional services businesses have access to a level playing field in overseas markets
Tax	Conclude double-taxation agreements	Conclude plurilateral/ multilateral measures (e.g. in OECD) to ensure more consistent international tax regimes	Ensure that UK financial and related professional services businesses are not disincentivised from international business because of duplicative or inconsistent tax regimes
It will be for industry to exploit the new global market opportunities brought about through UK trade and investment policy. In doing so, industry will work closely with government and regulators to make an effective and timely input into strategies for regulatory cooperation and economic and financial dialogues with the authorities in different markets, so as to ensure that UK negotiators are well-armed with evidence-based input when UK industry and the UK authorities together address how to maximise global market prospects. Industry will leverage new trade agreements to pursue more exports.			

Growing UK market share in key financial and related professional services segments

Build new global market capability around the key areas of future global demand

For the UK to succeed as the leading IFC in the long term, its financial and related professional services industry has embarked on strategies to capture a lead in key future growth markets and will press them forward. This will bring new jobs and investment to the UK and enable the growth of businesses across the country, including in key strategic future-looking sectors like technology and life sciences.

Some of the key future growth markets industry is pursuing are outlined below.

3.1 Digital solutions and markets

Global clients and local customers are demanding technologically-enhanced financial and related professional services delivery. In response, financial and related professional services businesses are creating platforms such as payments infrastructure to facilitate cross-border transactions, technology enterprise systems and robo-advice services.

Meanwhile, technology is not only creating new markets, (e.g. blockchain is making it possible to fractionalise assets and trade new products), but also creating new risk areas – financial crime, fraud, cyber security, and data protection and privacy concerns. The industry is developing strong capabilities in developing new products and services that help global clients manage these emerging risks, and needs to build on these important strengths.

Technology has created new geographies within the financial and related professional services ecosystem too, as countries like India, Malaysia, Poland and Romania become suppliers of critical functions. Digital trade policies are needed to safeguard them (akin to supply-chain safeguards).

3.2 The 'green' transition and sustainability agenda

Global clients need support as they seek to upgrade their operations to ensure alignment with the ESG (environmental, social and governance) agenda. Industry can provide critical new solutions, including:

- Support for ESG investment (e.g. green bonds to support the financing of renewable energy projects).
- The development of ESG indices and databases (to help clients identify the sustainability of their investments).
- Helping sovereign wealth funds to fulfil sustainability mandates.
- Decarbonisation planning.
- Advisory support on sustainability and governance.

UK financial and related professional services businesses are transforming their operations to ensure they attain ambitious net-zero goals and upskill their internal expertise on issues such as sustainable finance and impact investment.

3.3 International investment

As international investors continue to search for risk-adjusted yield in a low interest rate environment, UK financial and related professional services businesses can help global clients by providing access to investment opportunities in developing economies. This could involve providing direct access to developing world business opportunities through capital markets or developing general emerging market vehicles or index funds linked to Belt and Road Initiative projects or the G7 Build Back Better World initiative. It could also involve providing opportunities related to frontier market debt from regions like sub-Saharan Africa, the GCC and central Asia.[15] The UK could also strengthen its access to developing world investments if UK industry and government partner to help developing country governments and businesses attain international business, financial and legal standards: the UK and its financial and related professional services businesses could then become the go-to partner for developing markets seeking investment.

3.4 Risk management

Global corporate clients need support from financial and related professional services businesses to manage a rising tide of risk issues relating to climate change, supply chain management, cybersecurity, reputation, regulation and geopolitics (including sanctions). Moreover, lenders are facing increased default risks as borrowers begin to address the consequences of having taken on considerable debts during the pandemic.

These four trends are interconnected and are changing the structure of many financial and related professional services businesses. Shifts in technology are allowing these companies to reimagine the services they deliver and how they deliver them. Businesses providing services with a high-value add are increasingly seeking to serve as trusted advisers to their international clients in several spheres, even if that takes their business away from their traditional core offering. For example, law firms are moving into consultancy work, accountants are expanding to cover unreserved legal services, and insurers and insurance brokers are expanding their risk advisory functions. Meanwhile, market infrastructure providers increasingly see themselves as data platforms.

The trend towards becoming integrated, highly digitalised advisory businesses has major implications. Even as the boundaries between services businesses become less distinct, trade and investment policy discourse persists in retaining clear sectoral distinctions between different kinds of financial and related professional services business. This could result in a mismatch between policy terminology and commercial realities.

Below we recommend four ways the UK can deliver transformational growth by building four new global markets in the four key growth areas identified above: all play to the comparative and competitive advantages enjoyed by UK financial and related professional services firms.

Recommendation 1: make the UK a global hub for data and technology

Trade restrictions can make it hard for financial and related professional services firms to provide technology solutions to international clients. For example, countries have introduced several different standards on transferring data across borders. While over 50% of the trade in services is digitally enabled, in the decade to 2019 restrictions on digital trade doubled[16], with restrictions becoming particularly acute in 2016-2019.[17]

15 Investors' search for yield does not imply a need to focus on new markets to the exclusion of mature ones: almost two thirds of global AUM are invested in developed markets, and UK financial and related professional services should help to direct some of this to developing markets while ensuring that investors in developing markets benefit from investment opportunities in developed markets. (For evidence about the current location of global AUM, see 'The $50 Trillion Question' (Standard Chartered, November 2020). Available at: https://www.sc.com/en/insights/50-trillion-question/. (Accessed 20 May 2021).

16 Data Free Flow with Trust (DFFT): Paths towards Free and Trusted Data Flows (June 2020). Available here: http://www3.weforum.org/docs/WEF_Paths_Towards_Free_and_Trusted_Data%20_Flows_2020.pdf, pp7-8 (Accessed 19 May 2021)

17 Evenett, S. and Fritz, J. Mapping policies affecting digital trade (April 2021), p26. Available at: https://www.globaltradealert.org/reports/68 (Accessed: 1 May 2021)

UK policymakers should prioritise building new global digital markets in financial and related professional services to take advantage of the industry's position at the forefront of technology and innovation and make the UK a global digital hub that provides high-skilled jobs and support technological advance throughout the UK real economy. There are two steps to achieving this.

1. The UK government should promote common ground rules for digital trade through FTAs and WTO negotiations.
2. The financial and related professional services industry should provide insight into what to include in more ambitious, long-term 'highest common factor' agreements on data transfer between the UK and its key trading partners that government can take forward.

Beyond taking steps to ensure the free flow of data, policymakers should also continue to ensure that the physical infrastructure that underpins data flows – for example, the subsea cables that enable digital trade – is fully equipped to handle the rising levels of data flows. In the US, the Federal Communications Commission (FCC) monitors undersea telecommunications capacity every two years. Given the increasing importance of such links to the UK economy, UK officials should explore undertaking similar activity.

1. Setting ground rules for digital and digitally facilitated trade

The following ground rules should be included in all digital trade agreements concluded by the UK and championed by the UK in WTO e-commerce talks:[18]

- Remove cross-border data-flow restrictions, including restrictions on transferring financial data across borders.
- Remove data localisation requirements that compel business to store data originating in a particular jurisdiction on servers located within that jurisdiction, and ensure that the financial services sector is not excluded from agreements on localisation.
- Prevent customs duties from being imposed on e-commerce.
- Recognise the international validity of e-signatures and electronic contracts.
- Protect confidential information relating to software, source codes and encryption technologies by:
    - prohibiting requirements for source code disclosure or transfer as a condition for market access
    - prohibiting governments from requiring the disclosure of algorithms expressed in source codes except in certain clearly defined circumstances
    - prohibiting governments from requiring technology transfers or access to proprietary information for products using cryptography.

18 See for example, The future UK-US trading relationship: Creating a transatlantic digital market in services (TheCityUK, September, 2019). Available at: https://www.thecityuk.com/research/the-future-uk-us-trading-relationship-creating-a-transatlantic-digital-market-in-services/. And 'Past precedent and future opportunities: assessing digital trade provisions for the UK FPS sector', (The City of London Corporation, June 2021). Available at: https://www.cityoflondon.gov.uk/supporting-businesses/economic-research/research-publications/past-precedent-and-future-opportunities.

2. 'Highest common factor' agreements on data transfer

Agreeing on a set of ground rules will not eliminate restrictions on cross-border data transfers: many regulatory barriers will remain. The financial and related professional services industry should therefore develop new ideas on what should be included in more ambitious, longer-term 'highest common factor' agreements on data transfer that could address these remaining barriers.

Such agreements could advance industry-specific goals, such as:

- Creating greater interoperability between UK and international payment systems.
- Encouraging international regulators to create open-banking initiatives that allow UK third-party providers to enter new markets.
- Fostering commitments between the UK and overseas approved credit reporting agencies to share customers' credit information (with their consent) to facilitate lending on a cross-border basis.
- Encouraging UK and international partners to allow traditional banks to participate in regulatory sandboxes alongside FinTech firms.
- Cooperating on cyber security issues and shaping regulatory dialogues around FinTech and some of the ethical, safety and regulatory dimensions of AI.
- Tackling cross-border financial crime (especially money laundering and terrorist financing) by sharing information to build profiles on those involved and to monitor the market in real time.

Such efforts might lead to a comprehensive solution for international data transfers, which could include a G7/G20 agreement to address data transfers and a comprehensive global approach to all data, addressing privacy, intellectual property and other key data challenges in a coherent way.

Recommendation 2: put the UK at the heart of global sustainability markets

Tackling climate change will require a huge mobilisation of capital and a transformation in how businesses behave.

The UK can become a global hub for green and sustainable finance, a centre for green and sustainable investment, and a principal market for trading voluntary carbon offsets. Carbon trading seems likely to be an important growth area given that global businesses increasingly need to buy carbon credits to help meet climate targets and compensate for emissions that they cannot reduce themselves.

Achieving these sustainability ambitions would allow the UK to play a pivotal role in mobilising private finance to support the re-engineering of economies for net zero. The UK is well positioned to achieve these goals too: London is already regarded as having the world's top green finance offering,[19] with UK-based institutions having helped develop a global green bond market. Investors regard London as having one of the best records on ESG matters,[20] while the UK Voluntary Carbon Markets Forum, led by Dame Clara Furse, is scoping the steps necessary to make the UK a leading hub for carbon trading.

19 Please see Z/Yen, 'Global Green Finance Index 5' (March 2020), especially p9, available at https://www.longfinance.net/media/documents/GGFI_5_Full_Report_2020.03.24_v1.1_.pdf

20 London named a world leader in ESG by global institutional investors (Institutional Asset Manager, May 2021). Available at: https://www.institutionalassetmanager.co.uk/2021/05/05/299718/london-named-world-leader-esg-global-institutional-investors.

UK financial and related professional services firms' global ESG offerings are, however, being held back by the lack of global sustainability standards. As jurisdictions roll out their own green regimes, there is a risk of a multiple standards and taxonomies that overlap, duplicate and conflict, raising the costs of doing business. If current trends continue, a green fund sold in the UK could be regarded as 'green' in one jurisdiction but 'not quite green' in another because of regulatory divergence. In addition, the absence of common global standards makes it hard for investors to compare the sustainability of assets and limits confidence in green markets. Without clear standards, there is the risk of 'greenwashing'.

Various common reporting standards have been proposed but none is ready to be adopted. The International Regulatory Strategy Group (IRSG) - a joint venture by TheCityUK and the City of London Corporation - has set out some key UK financial and related professional services priorities on developing common reporting standards: first the UK should seek global action on building international standards on sustainability issues and developing common principles for green taxonomies. Once these are agreed, stronger global green markets will emerge in which UK businesses can prosper. In the meantime, within the UK, government and industry should explore how the UK can use its new regulatory equivalence regime, and other comparable regulatory tools, to make Britain a highly attractive location for international businesses that are developing new sustainability finance related products and services.

Sustainability disclosures

Creating a global standard for issuers and corporates to follow when making sustainability-related disclosures is critical to ensuring green markets function correctly and tackling greenwashing.

There is much international support for the disclosure method proposed by the Financial Stability Board's (FSB's) Task Force on Climate Related Disclosures (TCFD). But there is no global consensus on how to tackle gaps in TCFD reporting across jurisdictions or to drive global commitment towards more uniform TCFD reporting.

The G20 has asked the FSB to report on gaps in reporting requirements before the end of 2021. The FSB will detail how to promote consistent, high-quality disclosures in line with the TCFD's recommendations and what data is needed to assess financial stability risks.

The UK should work within the G20 and international institutions to promote high international standards on sustainability. An important step will be for UK policymakers to monitor the FSB report and, provided recommendations are suitable, endorse its findings. In the meantime, the UK should build global consensus towards TCFD reporting and work with trade partners to seek to ensure that TCFD regulations are implemented consistently on a domestic level.

Green taxonomy

There is no global taxonomy that can be applied to the activities or investments that contribute to sustainable outcomes.

Different jurisdictions are developing taxonomies at differing speeds: the EU has moved quickly while others are taking longer. The UK is developing its own taxonomy and considering how it should relate to the EU version. Although no single taxonomy is likely to be adopted as a global standard in the short to medium term, the more they are aligned the better. For this to happen, taxonomies will need to contain some commonly understood core principles to foster convergence in reporting standards. This will more easily allow practitioners in different markets to communicate with one another and regulators to conclude mutual recognition agreements on green standards.

Achieving interoperability will not be easy. But once in place, would galvanise global green markets. An important first step will be to achieve international agreement on an agency to lead the task of helping taxonomies connect to each other. It will be important for the UK to explore engagement with IOSCO's Sustainable Finance Task Force so that it supports the IFRS Foundation and its efforts to create a Sustainability Standards Board (SSB) to foster more alignment on sustainability standards and taxonomies. The UK should also work with the G20 to develop a common set of core guiding principles to inform the design of sustainable taxonomies, which would enable interoperability, and the mapping of transition as well as 'transited' activities.

Social reporting

The 'S' within ESG (social) is less clearly defined than the 'E' (environmental) and 'G' (governance) dimensions. However, social issues such as human and labour rights have become increasingly pressing for global businesses. In response, UK financial and related professional services firms are developing offerings to help customers and clients develop more socially responsible businesses. The industry's ability to supply those products globally will depend in the main on its own innovative capacity but also, in part, on whether common global social markets can be built.

Given cultural differences, it may be difficult to reach an international agreement on the mutual compatibility of social frameworks. As such, the International Regulatory Strategy Group (IRSG) has proposed that the UK should drive the adoption of a set of principles on how to tackle modern slavery.[21] Alignment in this area could be a first step towards alignment on wider social issues.

Recommendation 3: make the UK the world's leading gateway to high-yield international business opportunities

The 'Securing' section of this paper explained how to make UK capital markets the best in the world. But it is also important to increase international demand for UK capital.

The UK should encourage businesses in developing markets to regard the UK as their go-to partner for accessing finance and professional advice. To achieve this, the UK-based financial and related professional services industry and the government need to help priority developing markets strengthen their sustainability and governance frameworks, build stronger business environments and regulatory capacities, and develop policy approaches to areas like green finance, FinTech, capital markets, insurance and pension reforms. If this is achieved, UK business ties in key markets would be significantly strengthened. The following proposals set out how to deliver on this ambition.

Targeting UK development spending more strategically

UK development projects have facilitated a successful and cooperative approach between UK business, regulators, officials and overseas counterparts in developing markets to upgrade developing market business environments to international standards, supporting

21 For more information, please see: Accelerating the S in ESG – a roadmap for global progress on social standards (IRSG and KPMG, June 2021). Available at: https://www.irsg.co.uk/assets/Reports/IRSG-KPMG-Accelerating-the-S-in-ESG-report_final.pdf

services trade. It is time to build on this achievement: Global Britain should use aid to grow trade further. UK overseas development spending should address the goals of Global Britain by targeting spending in areas where the UK has particular strengths, such as helping other countries to develop services industries and the soft infrastructure (legal and regulatory) necessary to facilitate them. In particular, helping partner countries to develop their own successful financial and professional services sectors through making greater use of UK standards could entail strengthening the rule of law, supporting financial inclusion and regional stability, and promoting the growth of sectors like green finance, FinTech, capital markets, insurance and pensions. It would also give UK businesses a comparative advantage as they move into these new high-growth developing markets.

UK financial and related professional services firms should take a lead with the UK government in deepening the relationships with key emerging and development governments, and supporting governments, regulators and businesses with development efforts, including:

- Promoting foreign investment.
- Strengthening governance and accountability.
- Developing green finance frameworks.
- Promoting financial inclusion through the deployment of FinTech, digital solutions and alternative finance (including Islamic finance).
- Offering examples on how to develop a pensions ecosystem modelled on UK standards and auto-enrolment approaches, while respecting market context.
- Developing capital markets overseas, whether through advising on regulatory infrastructure, developing links between exchanges to support joint listings, or providing businesses with alternatives to bank financing such as life insurance funds.
- Providing financial training.

The UK should target this development work at markets where the industry can deliver the greatest value and capture new market opportunities:

- China, with a focus on green finance, FinTech and capital markets projects.
- India, with a focus on capital markets, skills development, infrastructure financing, financial inclusion, insolvency and FinTech projects.
- Southeast Asia, particularly Malaysia, Indonesia, Vietnam and Thailand, with a focus on governance, skills development Islamic finance, green finance, FinTech and capital markets projects.
- Gulf states, particularly the UAE, Saudi Arabia and Qatar, with a focus on governance, skills development, green finance, Islamic finance and FinTech projects.
- Eastern Europe, particularly Ukraine and Russia, with a focus on partnerships around capital markets, governance and green finance projects.
- Central Asia, particularly Uzbekistan and Kazakhstan, with a focus on capital markets, governance, Islamic finance, legal infrastructure development and green finance projects.
- Africa, particularly Nigeria, Kenya, Ghana and South Africa, with a focus on financial inclusion, capital markets, green finance, financial education, Islamic finance and FinTech projects.

Helping UK diplomats promote financial and related professional services industry priorities

Financial and related professional services is the UK's largest exporting sector and delivered a trade surplus of $101bn in 2019. The UK government has long sought to promote UK financial and related professional services further internationally. Promoting trade, attracting investment and addressing financial regulatory issues requires a specific knowledge of global financial markets. It is critical that diplomatic staff in priority markets understand the key drivers of financial and related professional services growth, and secure the best outcomes for the UK economy at the bilateral and multilateral level.

To address this need, TheCityUK is committed to working with government to design and deliver a Global Financial Markets Programme to support senior staff in UK government departments going on posting. The programme would focus on financial and related professional services trade, investment and regulatory priorities and be co-developed with government and industry in partnership with the Møller Institute at Churchill College, Cambridge University. It will ensure staff are confident of the issues and priorities when promoting the UK's financial and related professional services sector while posted overseas.

Boosting the international resourcing of regulators would also help ensure that the UK can deploy expertise in the market. The FCDO should consider tapping the skills of those with past career experience of economic diplomacy: this could provide posts with access to specialist skills.

Recommendation 4: position the UK as a world leader in risk management and risk advisory

International businesses are facing an increasing number of risks. As a result, risk-related advisory services are becoming ever more valuable. The UK should use trade policy and regulation to leverage its natural strengths in this area and become the global centre of complex risk management.

First, the UK needs to make the global case for more integrated global risk markets. As set out in 'A new chapter for financial services', the strategy document from HM Treasury that accompanied the Chancellor's 2021 Mansion House speech, the UK government should leverage its financial partnerships with a range of markets, especially emerging markets, to push for more liberalisation of insurance business. The UK should focus on securing agreement from overseas regulators and governments to permit the transfer of more risks arising in overseas jurisdictions into the global insurance market. This would significantly increase business volumes in the London insurance market. Trade partners would gain as their businesses would secure cheaper and more reliable risk management services. On a global scale, financial stability would increase as insurance markets would function more efficiently.

As long as such risk transfers are limited, major global risks (especially climate risks) will not be covered or reinsured adequately. Either overseas governments (often in the developing world) will have to pay out increasingly unmanageable sums of money as de facto 'insurers of last resort', or else climate risks will not be insured, potentially causing widespread suffering among affected populations.

Authorities in many jurisdictions currently restrict the transfer of risk into global markets through economic-needs tests (to test whether the risk can be covered by insurance within the jurisdiction), preference for local over international insurers (by offering first refusal of cover to local insurers), imposition of foreign exchange controls (preventing the payment of premiums to international insurers or reinsurers) or compulsory reinsurance cessions (requiring local direct insurers to reinsure with reinsurers within the same jurisdiction). The result is to retain risk within jurisdictions (often at increased cost) rather than allowing it to be insured and reinsured more safely overseas.

Overseas obstacles are not the only factor. The UK has itself imposed regulatory obstacles to new markets in alternative risk transfer. There is a growing global market in risk securitisation involving catastrophe bonds; insurance-linked securities and reinsurance sidecars; the trading of risk through industry loss warranties and weather derivative contracts; and the transforming of capital market risks into reinsurance through transformer vehicles. The UK has expanded its role in this area under the Risk Transformation Regulations 2017 but its regulatory authorities have proved reluctant to cater for the special purpose vehicles that would facilitate this development. The result has been a shift of mobile capital to overseas markets, notably Bermuda, with adverse effects on the London insurance market and also wider UK capital markets.

For the UK to capture a growing share of fast-emerging insurance markets, the industry and government need to work together and:

- Use regulatory dialogues and forums to persuade overseas insurance regulators and government authorities of the merits of full, unimpeded transfer of such risks out of their jurisdiction.
- Work with regulators to support a flourishing insurance securitisation market, as intended under the Risk Transformation Regulations 2017.

In the long term, the UK should pursue more multilateral agreement on cross-border insurance and reinsurance of large and/or systemic risks. The UK should also pursue a joined-up approach when considering how wider cross-cutting policy measures that affect UK businesses' ability to manage risks in developing markets (including sanctions and financial crime/cybercrime policies) relate to its trade and investment policy.

Summary

How to transform the UK's position by building new global markets around the key areas of future global demand			
Key global growth markets	**Short-term measures**	**Medium-term measures**	**Long-term strategic objectives**
Digital financial and related professional services technologies	Agree a set of ground rules on digital trade to be applied in FTAs Work with other countries to conclude the WTO Joint Statement Initiative on E-commerce	Deliver "highest common factor" data agreements with key trading partners. These agreements should facilitate data transfers and address key industry digital priorities	Build more integrated global digital markets and make the UK a digital hub for financial and related professional services within them, putting the UK at the forefront of technology and innovation
Environmental, sustainability and governance (ESG) products and services	Seek international consensus on using the TCFD green disclosure system	Drive greater international support for IFRS standards Pursue an international agreement on the interoperability of green taxonomies	Build an integrated global ESG market and position the UK as a global hub for green finance and sustainability services
International investment opportunities	Upskill FCDO staff and other UK officials overseas so that they can better promote UK financial and related professional services capabilities	Target overseas development spending at selected countries and sectors where the financial and related professional services industry can add the greatest economic value	Position the UK as the best place to access international investment opportunities and the premier hub for developing-world businesses seeking financial and related professional services advice

Trusted risk advisory and risk management services	Conclude agreements that remove barriers to international risk transfer in the insurance market Adjust the UK regulatory regime to facilitate the rise of insurance-linked securities	Continue to drive international consensus around internationalising risk and permitting greater international risk transfer into the global insurance market	Make the UK the world's leading risk-management hub, capable of supplying solutions worldwide to complex environmental, regulatory and other key emerging risks
It will be very largely for industry to identify the key areas of future global demand and to bring these to the attention of UK government and regulators, working with them to ensure that the UK's trade and investment strategy is attuned both to new areas of global demand and to the specific characteristics of each market in which the UK competes. An open and collaborative process in policy framing and implementation will be required throughout, and industry will take a leading role in partnering with government to promote its global capabilities.			

Building new markets around the key areas of global demand

Paths to implementation

The UK industry and government can deploy different techniques to deliver on its international strategy. The focus should be on outcomes, not processes. Objectives can, and should, be pursued through many avenues simultaneously. To take just one example, regulatory coherence should be pursued at the WTO Joint Statement Initiative (JSI) on Domestic Regulation, G7 and G20 engagements, and a range of regional and bilateral dialogues.

Key mechanisms for achieving the financial and related professional services industry's international goals include the following:

- **Bilateral and regional FTAs** – these are the most comprehensive form of trade agreements and are a core focus of current UK trade policy. Given the time needed for FTA negotiations, industry should guide government as to the markets and sectors where FTAs can add the most value for the UK.
- **Multilateral and plurilateral trade agreements at the WTO** – the plurilateral JSIs on E-commerce, Domestic Regulation and Investment Facilitation are especially relevant to industry priorities.
- **Agreements at global policy coordination bodies and standard setting bodies** such as the BCBS, IOSCO, IAIS, the OECD, G7, G20, FSB, the IFRS Foundation and IFIAR.
- **'Second country solutions'** – the UK and Switzerland have pioneered a 'second country' solution for financial and related professional services cooperation that involves agreeing a range of outcomes-based mutual recognition agreements. This is effectively a third way between passporting and the requirement to establish a third-country commercial presence. This model might work well with similar developed world economies.
- **Regulatory dialogues** – these can help open up trade and investment opportunities. Good examples include: the US-UK Financial Regulatory Working Group (supported by the British American Financial Alliance, a UK-US private sector industry coalition); Economic and Financial Dialogues with markets like China and India; and Financial Dialogues with partners like Japan and Singapore.

The industry should not limit its approach to cooperation at a national level. There are significant opportunities to deepen trade and investment links through dialogue with state, regional and city authorities, which, in some markets, have as much say (if not more) over the financial services industry as national regulators. Industry and government should also pursue talks with localities or states when pursuing dialogue around regulation, such as FinTech regulation with representatives of the US Conference of State Bank Supervisors.

Conclusion

The objectives set out in this strategy are targeted at ensuring that the UK regains – and then retains – its status as the world's leading IFC. This will equip the UK with a powerful platform to drive growth and investment across the country and provide the capital and skills necessary to give the UK a commanding lead in key strategic technology industries.

The agenda is ambitious: it will not be easy for industry and government to deliver on, but given the formidable capabilities of the UK's financial and related professional services ecosystem, it can be done.

The financial and related professional services industry is committed to the investment that is necessary, and stands ready to work with the government and regulators to make this vision a reality. The reward will be long-term prosperity, a future-proofed economy and high-quality sustainable jobs across the UK.

This strategy and its recommendations are supported by the financial and related professional services industry, including TheCityUK, the City of London Corporation, the International Regulatory Strategy Group, UK Finance, the Association of British Insurers and the Investment Association.

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