TheCityUK

Our 10 Mansion House asks

Ahead of the Chancellor's Mansion House speech on 15th July, where she will set out the government's Financial Services Growth and Competitiveness Strategy, we have been engaging with policymakers and the chancellor to put forward the ten key features our members would like to see in the final strategy.

1. Regulatory and legal certainty
2. Regulatory capital requirements
3. A competitive tax system
4. Embracing technology to deliver the digitalisation of UK capital markets
5. A competitive sustainable finance framework
6. Access to global talent
7. International trade and investment and the UK's international relationships
8. Supporting the right investment environment
9. Stimulating retail investment
10. Driving institutional investment into the UK

1) Regulatory and legal certainty

Regulatory and legal uncertainty, particularly in conduct regulation, and suboptimal regulatory coordination are key disincentives to the UK's relative competitiveness.

This should be addressed directly in the Financial Services Growth and Competitiveness Strategy, for example by committing to reforming the FOS as a key priority. This would enable the FOS to focus more on individual disputes and less on the interpretation of precedent-setting regulatory matters, improving its service to consumers.

2) Regulatory capital requirements

The level of regulatory capital that firms across the industry are required to hold is an important factor in the industry's ability to invest in growth-driving companies and infrastructure.

The Strategy should seek to ensure that capital requirements reflect risks across the financial services ecosystem whilst not stifling growth.

3) A competitive tax system

A good tax regime is not just about levels of taxation, but also a matter of how tax policy is approached. Frequent, short-term changes to tax policies and rates send signals of instability, unpredictability and complexity to investors, which deters investment and ultimately growth.

The publication of the Financial Services Growth and Competitiveness Strategy is the perfect opportunity to analyse how government can simplify the tax system reducing the burden of compliance for business and the cost of collection for the Exchequer, without the need to change rates.

The Strategy should also ensure that the tax regime remains attractive for senior professionals so that the UK continues to attract investment, keeps its homegrown talent, and attract the best international talent. The alternative would be negative for economic growth.

Specific steps we would like to see set out in the Financial Services Growth and Competitiveness Strategy include:

- Initiating and publishing the promised review of VAT treatment for financial services, including an assessment of the impact of the VAT regime on our international competitiveness.
- Commit to launching a wholesale review of stamp duty on UK equities. In the short-term, to support the government's retail investment agenda and to encourage a pipeline of Initial Pipeline Offerings (IPOs) it could consider:
    - providing a three-year exemption for stamp duty on UK equities of companies that will be completing an IPO on the UK main market
    - suspending stamp duty on UK equity trading within ISAs, as part of the wider reform.
- Reinstating a clear distinction between tax policy, which is a core part of HMT's remit, and implementation, which falls under HMRC. The current blurring of this distinction is leading to unnecessary and duplicative layering of tax policies and the effective creation of tax policy within HMRC, which remains unaccountable. The government should ensure that HMRC adopts an approach similar to that set out in HMT's Regulatory Action Plan, by taking a more strategic, long-term view of taxation and by removing unnecessary and duplicative layering of tax policies.
- Reconsider the overall effective tax rate on banks by phasing out the bank levy and the surcharge, which are key elements of the UK's increasingly uncompetitive total tax rate for banks.

4) Embracing technology to deliver the digitalisation of UK capital markets

A proportionate approach towards regulation is key to harnessing the transformative potential of technologies such as AI and digital assets, and to protecting consumers and ensuring financial stability without impeding the pace of innovation, investment and development.

While there have been positive steps to support digital assets innovation in the UK, other jurisdictions are moving quickly to embrace innovation and modernise their capital markets. The Financial Services Growth and Competitiveness Strategy should therefore contain plans to urgently modernise and future-proof the competitiveness of British capital markets for an increasingly digital economy.

Building on the recommendations in our report on the digitalisation of UK capital markets, we hope that the Strategy will also commit the government to publishing a strategic roadmap to accelerate the digital transformation of the UK's capital markets. This must provide clear timelines for implementing existing reforms – in particular delivering a modern digital infrastructure for share ownership – making progress on the DIGIT and establishing a proportionate, effective and forward-looking regulatory approach for digital assets.

5) A competitive sustainable finance framework

Clear, coherent and interoperable sustainable finance regulation is essential if Britain is to maximise its competitive advantage around the transition towards net zero and use it to deliver economic growth. We encourage you to use the Strategy to make progress on key commitments previously announced by government:

- Endorsing the International Sustainability Standards Board (ISSB) standards as the UK Sustainability Reporting Standards (UK SRS).
- Following the recommendation of the Technical Advisory Committee, and to consult on their implementation alongside the FCA.
- Consulting on how to take forward your manifesto commitment on transition plans.

6) Access to global talent

Financial and related professional services are people businesses and the ability to attract top international talent is mission critical for our members. It is therefore vital that the Financial Services Growth and Competitiveness Strategy acknowledges the need to create a world-class visa regime that encourages and enables highly skilled people to locate in Britain.

This regime should work alongside the welcome domestic reforms the government is delivering – for example the creation of Skills England – to upskill and reskill the domestic workforce and keep pace with the digital transformation.

7) International trade and investment and the UK's international relationships

We welcome the recent trade and economic agreements with India, the European Union and the United States. Our industry is integral to supporting the resulting trade flows, whether in the form of trade finance, trade credit insurance or cross-border payment services.

However, these agreements have also illustrated the difficulties in achieving further market access for financial and related professional services through bilateral agreements alone. The Financial Services Growth and Competitiveness Strategy should commit the government to working closely with our industry to leverage the full trade policy toolkit – from regulatory cooperation to mobility agreements – to maximise the industry's export potential and ability to attract investment.

The UK should also be more proactive on international trade policy issues that impact British businesses in the increasingly important centres of growth in Asia, the Middle East and Africa.

8) Supporting the right investment environment

The Strategy should directly examine how investing in the UK can be made simpler and more effective for international and domestic institutions.

Institutional investors have significant pools of capital but frequently struggle to find investable projects where they can deploy those funds at pace. Regional and local government lacks capacity to do this effectively, and we therefore advocate the creation of capacity to identify and package projects in investor-friendly terms, to pool investment opportunities so towns as well as larger cities can benefit, to act as broker between projects and investors, and to enable faster progression through public sector procurement processes.

Our work on this topic has established that investors would strongly welcome a move in this direction.

9) Stimulating retail investment

Stimulating retail investment will play a crucial role in an inclusive growth agenda by fostering economic expansion, supporting job creation, and ensuring financial participation across diverse demographics. Individual Savings Accounts (ISAs) reforms will be an important part of that agenda. The reforms should focus on increasing understanding and engagement across the ISA landscape. It should acknowledge that an individual's financial planning should be holistic, incorporating short-term savings, longer-term investments as well as debt repayment.

We believe the Financial Services Growth and Competitiveness Strategy should set out a long-term strategy for retail investment, which would set the public policy objectives to guide initiatives such as the ISA and Advice and Guidance Boundary Review (AGBR) framed by three pillars:

1. Understanding and engagement: The strategy should enhance individuals' knowledge and engagement of financial markets. It should include a holistic, long-term, UK-wide strategic programme to improve financial literacy and confidence, with clear leadership and adequate resources to widen the societal benefits of investing.

2. Products: It should promote the variety of products available to investors and enhance consumer understanding of the potential gains across various asset classes while also highlighting the consequences of missed opportunities

3. Incentivisation and facilitation: The strategy should incentivise and facilitate more individuals to invest taking best practice from other countries.

The strategy and ongoing reforms should articulate a nuanced approach to risk for retail investors to empower individuals to make informed financial decisions and support inclusive growth across UK regions and nations.

10) Driving institutional investment into the UK

We welcomed the Pensions Investment Review final report as a step towards encouraging more institutional investment into the UK, we do not support any measures that would mandate domestic investment.

The government's role in driving greater domestic investment should be to use its range of tools to ensure that UK investments offer strong potential for attractive, competitive net returns to all investors, whether pension funds or other entities, domestic or foreign.

You can read the full letter we recently sent to the chancellor here.

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