FINANCIAL SERVICES

Good for London, the UK and the EU

London is a leading global centre for financial services. The city plays host to banks, investment companies, private equity, venture capital, hedge funds and real estate funds that attract capital from across the world.

Financial services are essential to provide the credit and capital that all businesses – big and small – need, so that they can carry out their day to day activities. Banks and other financial institutions serve the useful social purpose of providing start-up and running capital for businesses. Businesses and individuals need financial services to provide products which help them manage risk.

Syed Kamall believes that financial services need to be well regulated and that their conduct needs to be transparent. But there are dangers in too much regulation: it can result in more complex financial products being created; these are often harder to supervise than existing products; and it can result in a flight of capital and jobs to other global financial centres.

Some of the legislation being introduced at EU level risks undermining London as a global financial centre. Business will not shift to Paris or Frankfurt as the French and Germans hope, but will simply move outside the EU. Much of Syed's work consists of damage limitation and fighting off misguided policy.

Five Facts on Financial Services

1) Financial services employ 1 million people in the UK. This is 3.9% of all UK employment.

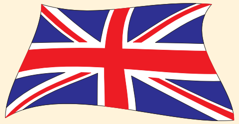
2) In 2009 and 2010 financial services paid £53bn total in taxes, the largest of any sector. This amounted to 11% of total taxes received.

3) People working in finance paid 15% of the UK's income tax.

4) The UK is the world's largest exporter of financial services, exporting eight times more than the USA.

5) Two thirds of those working in financial services in the UK are outside London, including almost 100,000 in Scotland and almost 30,000 in Wales.

SYED KAMALL MEP FOR LONDON



Syed Kamall is a Conservative Member of the European Parliament representing London.

In the European Parliament, he is a member of the Legal Affairs Committee and Economic and Monetary Affairs Committee which sets the regulatory framework for one of London's most important industries, financial services.

While Syed welcomes moves for national regulators to share information and improve coordination, he believes that local supervisors generally understand their local markets best. He opposes Socialists, Greens and most Christian Democrats in the European Parliament, who want to see EU watchdogs accrue more and more power.

Syed is always keen to engage with London's financial services industry to hear their concerns and to give them advice on how to engage better with Brussels. He thinks a better dialogue between London and Brussels will mean better regulation.

This is the fifth Pocket Guide that Syed Kamall has published. The others are:

- Pocket Guide to the EU Budget
- Pocket Guide to the Lisbon Treaty
- Pocket Guide to the European Union
- Pocket Guide to the EU and Local Government

You can download the guides at:
www.syedkamall.com/guides

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SYED KAMALL'S POCKET GUIDE TO

EUROPEAN FINANCIAL REGULATION

THE EU's NEW SUPERVISORY ARCHITECTURE

2008 saw a collapse of confidence in the ability of many financial institutions to repay the debt that they were holding. This resulted in a loss of liquidity in the banking sector, the bankruptcy of Lehman Brothers and bailouts by taxpayers in the US and Europe of banks that had borrowed too much.

In London, which plays host to Europe's two leading financial centres (the City and Canary Wharf), the Labour Government, Bank of England and Financial Services Authority failed to control the credit binge and to supervise the financial markets effectively.

The European Commission has used its new powers under the Lisbon Treaty to establish a new European Supervisory Architecture.

Three EU financial watchdogs have been created, overseen by a new European Systemic Risk Board. They are responsible for coordinating national financial authorities. Syed feels better sharing of information between European regulators is positive and the new authorities could play a helpful role. But he will continue to resist those who want to see these authorities replace supervision at the national level.

Brussels-based **EUROPEAN COMMISSION** – commissioned in 2009 the de Larosière report recommending that an EU level body be established to oversee risk in the financial system

Brussels and Strasbourg based **EUROPEAN PARLIAMENT** (elected representatives)

Agrees the **ESRB REGULATION** in November 2010 with

Brussels-based **EUROPEAN COUNCIL** (representatives of National Governments)

Frankfurt-based **EUROPEAN SYSTEMIC RISK BOARD ESRB** - shares secretariat with European Central Bank

Paris-based **EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)** - covers securities markets, derivatives and short selling.

London-based **EUROPEAN BANKING AUTHORITY (EBA)** - covers banking, payments and e-money regulation, corporate governance, auditing and financial reporting

Frankfurt-based **EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)** - oversees Europe's pension and insurance industries

NATIONAL AUTHORITIES eg (FSA in the UK, AMF in France and BaFin in Germany etc)

THE FINANCIAL SERVICES INDUSTRY Banks, fund managers, stockbrokers, insurers, advisers, etc

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NEW EU FINANCIAL REGULATION

Syed believes that new regulations could make European financial markets safer and more competitive. However, the European Union is only now, three years on, starting to address the problem of banks that are too big to fail and which need to be bailed out by taxpayers. He wants to see put in place orderly wind down procedures for failing banks which allow payment systems to continue functioning and require shareholders and bondholders to take the hit rather than taxpayers. This should have been job number one. Instead, the EU is promoting over a dozen lower priority initiatives, Directives or Regulations. These include:

The Alternative Investment Fund Managers Directive (AIFMD), which will increase costs and create some restrictions for hedge funds, private equity and venture capital and even smaller market players like real estate funds and investment trusts.

The Short Selling Regulation, which will force funds to disclose their short positions to the public and could make it tougher for investors to hedge their investments and drive up government borrowing costs.

European Market Infrastructure Regulation (EMIR), which could be a benefit to London clearing houses allowing them to clear trades from more different venues across Europe, or it could hurt the London market depending on the outcome of negotiations.

The Investor Compensation Schemes Directive, The Deposit Guarantee Schemes Directive and Insurance Guarantee Schemes Directive, which could mean London subsidising weaker European centres through new schemes for compensating investors, depositors and insurance holders.

The Undertakings for Collective Investment in Transferable Securities Directive (UCITS V), which has been a big help to UK investment companies allowing them to market to all of Europe. But a current review of this Directive could make EU funds more costly and less appealing globally.

The Markets in Financial Instruments Directive (MiFID II), which is expected to create new requirements for investment firms and trading venues on their organisation and conduct of business. The review will also address issues such as high frequency trading, commodity trading, trade transparency and it will push more 'OTC' derivatives trading onto exchange style trading platforms.