

**Balance of Competences Review**  
**Financial Services and the Free Movement of Capital**  
**Free Movement of Services**

**Discussion Event**  
**Frankfurt, 4 December 2013**

*NB: the following views were expressed by meeting attendees.*

**Summary**

- Most financial services regulation is driven at an international level and then implemented on an EU level, so it is important to maintain a global perspective.
- The sector relies on a highly skilled and highly mobile workforce, so the free movement of people plays an important role.
- In broad terms, the sector has been positive about European integration, but there is a growing desire to examine costs and benefits more closely.
- Recognition that the UK is especially concerned by the impact of financial services regulation given the sector's importance in the national economy, but risk that this limits room for manoeuvre on other topics.
- German businesses broadly support the UK's membership of the EU, although some participants worry about the lack of a clear vision for future reform.
- Some scepticism about whether examining the balance of competences is the best approach to reform, with a risk that this is seen as an attempt to unilaterally repatriate competences.
- However, some other Member States are conducting similar exercises and more are likely to follow after the 2014 European Parliament elections.

**Financial Services Sector**

The majority of financial services regulation is agreed at an international level and then implemented by the EU (e.g. the Basel Accords), which means a global perspective is important: any action by the EU is irrelevant if it is not well-coordinated with regulators in other key markets in Asia and the US.

The financial services sector relies on a highly skilled but highly mobile workforce. London is currently an attractive destination for people with the right skills and many German banks have large numbers of employees working there, but this could change in the future; many talented financial services professionals are also keen to work in Asia.

In general, the financial services community has been in favour of European integration where this has supported the expansion of the single market, but there is a growing desire to take a more critical look, especially since the financial crisis demonstrated the need for new regulation.

Given the important role of financial services in the national economy, it is inevitable that the UK takes a strong interest in regulation of the sector—but there is a risk that this can make negotiating cross-sectoral compromises with other Member States difficult.

### **German Perspective**

The current Balance of Competences exercise is a more extensive attempt to gather evidence about costs and benefits of EU membership than has ever been attempted in Germany

In general, German business has been supportive of 'common sense' UK approach to regulation and of the UK's ongoing membership of the EU.

However, some participants feel that there is not a clear 'vision' for European integration. The EU's initial driving force, maintaining peace, has diminished, and it is not clear whether the completion of the Single Market has entirely replaced it for all Member States.

### **Balance of Competences Review**

Attempting to examine the balance of competences as they stand today is the wrong approach because it means looking for a static solution to a problem in a dynamic system.

Furthermore, the UK should be clearer about whether or not it is proposing new reforms from scratch ('going back to the drawing board') or examining the current situation in detail ('writing a scorecard'). This would help to avoid the impression that the UK is trying to repatriate a broad range of competences.

Although other Member States are already conducting similar exercises, there is likely to be even more pressure to do so after next year's European Parliament elections, especially if eurosceptic parties make a significant breakthrough.