Balance of Competences Review
Scottish Government Response

Single Market - Financial Services And Free Movement Of Capital

1. How have EU rules helped or made it harder to achieve objectives such as financial stability, growth, competitiveness and consumer protection?

Scotland is a vital hub of a highly integrated market for financial services in the UK. It is attractive for financial and business services investment due to:

- our attractiveness to foreign direct investment;
- ease of access to the Single Market which is the lead driver for firms to invest in the UK; and
- Scotland's strong support for the EU and the role it plays in our recovery, job creation and sustainable economic growth.

2. How has the EU's approach to Third Country access affected the ability of UK firms and markets to trade internationally?

It is important that financial institutions based in Scotland can take advantage of new market opportunities. According to TheCityUK, nearly two-thirds of the UK's trade surplus in financial services is derived from trade beyond the Single Market.[1]

Reflecting the international nature of the banking industry and capital markets, and in particular the UK's membership of the single market in EU financial services, the Prudential Regulatory Authority works with its counterparts globally and in the EU to develop and implement prudential standards and to supervise international firms.

3. Do you think that more or less EU-level regulation in the area of retail financial services would bring benefits to consumers?

The Scottish Government supports the clear ring-fencing of the most risky and speculative elements of financial activities (such as investment banking) from the more traditional financial activities (such as retail banking).

4. What has been the impact of the shift towards regulation and supervision at the EU level, for instance with the creation of the European Supervisory Authorities? Should the balance of supervisory powers and responsibilities be different?

The Scottish Government supports principles of effective regulation, coordination, and harmonisation of policies across international borders. The industry is also supportive of our EU relationship and access to the Single Market. 95% of respondents in research for TheCityUK[2] said that access to the Single European

[1] TheCityUK, Report on TheCityUK seminar on 'The Balance of Competences in Financial Services', September 2013, page 12.
[2] The City Speaks: A milestone study of the views of financial and related professional services leaders in the EU. TheCityUK, 30 October 2013

Market is important to the UK's future competitiveness. Companies also felt that, along with access to new customers, the single regulatory framework for the financial services was one of the key benefits for the sector.

5. Does the UK have an appropriate level of influence on EU legislation in financial services? How different would rules be if the UK was solely responsible for them?

The regulatory framework in the UK changed after the financial crisis. A number of significant reforms are now being undertaken within individual countries, bilaterally, and multilaterally, in an effort to better regulate the industry and to guard against financial crisis. In the UK current reforms in progress relate to proposals which would ring-fence retail banks to protect against investment or commercial banking divisions.

The financial services sector shares a common basis in Scotland as it does in the rest of the UK. The Bank of England provides the lender of last resort arrangements to reflect the integrated financial system and the Sterling Monetary Framework. Banks also receive lender of last resort facilities from across the world, and it is normal for countries to act in a coordinated way to secure financial stability. For example, the RBS and Barclays received significant liquidity support from the US Federal Reserve at the height of the financial crisis.

6. Do you have any further comments about issues in addition to those mentioned above?

Scotland has a strong financial services industry with a significant international reputation. It accounts for around 8% of onshore output (just under 7% including a geographical share of oil and gas) and 4% of employment. This employment figure is not dissimilar to the UK as a whole or other countries of a comparable size. However, life and pensions firms in Scotland account for nearly 30% of all employment in the UK.

The new strategic partnership between Aberdeen Asset Management and Lloyds Banking Group saw the former acquire Scottish Widows Investment Partnership (SWIP) and become the largest independent asset manager in Europe. This will strengthen Scotland's already highly successful asset management sector, which in 2012, saw employment grow for the fourth consecutive year.

The Scottish Government will continue to engage with TheCityUK, all other stakeholder organisations and industry on issues which are important to Scotland with regard to the economic value of the UK's membership of the EU. Treasury held an evidence-gathering session with Scottish Financial Enterprise (the industry representative body in Scotland) on 9 December 2013 from which a report will be produced by HMT and shared with the Scottish Government.