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William Brandon Esq.
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Dear William

Balance of Competences Review – Single Market: Financial Services and the Free Movement of Capital

This is Citi's response to HM Treasury's 'Balance of Competences' review in relation to financial services and the free movement of capital[1]. We have contributed to and support a number of other responses to this consultation, including those submitted by the British Bankers Association, the International Regulatory and Strategy Group, and the Confederation of British Industry. This response therefore focuses on those issues and questions where we feel we have a specific interest or expertise to contribute.

Background

Citi is a leading global bank, with approximately 200 million customer accounts, doing business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management.

In Europe, Citi is present in 23 of 28 EU member countries with its regional Head Office in London and key subsidiaries in Luxemburg and Ireland. With around 10,000 employees in the UK, Citi helps the country's leading companies do business with the rest of the world and assists international companies who invest in the UK. Citi has been in the UK since 1902 and we have a long-term commitment to the country. We aim to support the UK's growing economy, job creation and future prosperity.

Citi's main role is to provide funding and financial solutions to clients internationally. We provide wide support for transactions across the EU, including custodianship, trading, transactional services, advisory banking and lending. Citi specialises in providing local and regional banking solutions for multinational clients globally. For example, Citi's transaction services supports 68 different payment currencies and provides banking solutions across Europe, Middle East and Africa, with more than 8,000 subsidiaries of over 1,500 parent companies.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251514/PU1568_BoC_FSFMC_CfE_proof4.pdf

General comments

Citi has chosen the UK base from which to head these operations for many reasons, two of the most significant being: (1) London's position as a global financial centre; and (2) the UK's access to the EU's Single Market. We believe that (1) is in no small part a function of (2).

The UK clearly has a proud history as a global trading nation and much is made of its deep ties beyond Europe, in particular with the US and the Commonwealth. While a valid point, the destination for almost 50% of British goods and services is currently the EU; a greater proportion of exports than France, Germany or Italy. Jobs and the growth of the economy depend on maintaining and increasing the UK's exports to the EU, particularly as the European economy begins to recover. For businesses this is optimised by the UK's full participation in the Single Market. It is likely that existing and future trade arrangements will be optimised if the UK exercises its influence in the making of the international rules.

As the government has recognised, the UK also needs to increase trade beyond the EU. Global GDP is set to quadruple over the next 50 years, with two thirds of that growth predicted in emerging economies. The UK will need to be at the front of the queue in negotiating trade agreements that make major markets accessible to British businesses. Today the UK has the lowest level of exports to emerging markets of any EU country measured as a percentage of GDP. It seems logical that the larger countries, such as China, Brazil or India would prioritize the EU, as the world's largest economy and trading market, rather than a single country to conclude trade deals. The EU provides international weight and bargaining powers for the UK, which otherwise would have to rely on bilateral and multilateral agreements. Citi is very supportive of the current efforts to conclude a Transatlantic Trade and Investment Partnership (TTIP) between the EU and US. These negotiations have the potential to deliver a large boost to transatlantic trade in goods and services, including financial services.

The inward investment story is similar. As the world's sixth largest economy, the UK has a number of attractions to business, including a skilled and flexible workforce, its time zone, English language and law, and good infrastructure. Its attraction is also as an export base, relying on EU membership as a guarantee of open-access for goods and services trade in the EU. Citi is drawn to London as a powerful international financial centre and has built its investment in the city to become its largest hub outside New York. Major financial hubs rely on strong regional support and access. As the US and Chinese economies underpin New York and Hong Kong, so London is the principal financial hub for the EU as a whole.

The same holds true for many of Citi's clients. Japanese companies employ around 130,000 people in the UK, often producing goods for sale in Europe. There appears to be mounting concern from clients about their continuing ability to use the UK as their regional hub if the UK were to loosen its ties or influence within the EU. It is unlikely that international companies would stop investing in the UK, but their investment might not be at the scale we have become accustomed to. Moreover, if the UK were to disengage significantly or completely from the EU's Single Market the implications could be dramatic (e.g. to maintain the same export performance within the EU, and the same level of inward investment, would probably require the British people to accept a drop in living standards as a result of lower wages or a weaker pound). In the meantime, it is worth noting that the uncertainty that is being generated by the UK's political debate over longer term membership may be causing firms to put their inward investment plans on hold for the time being.

Citi supports a reformed Single Market and believes that the UK should engage with its EU partners to reform itself on the issues Europe faces: growth and the provision of SME financing; the growing pension deficit; and youth unemployment. The financial sector should play a fundamental role in helping to solve these problems. Citi hopes that a liberalised and reformed Single Market – with the UK firmly in it – is the best means of protecting the interests of all member states. London, as the European centre of financial services, is ideally placed to take a leading role in that reform programme. The UK is not alone in wanting to achieve that goal. It would seem likely that the UK would find many allies to help make a forceful case for reform, as long as it is within the context of a clear commitment to on-going EU membership.

Responses to specific consultation questions

In response to **question 1**, Citi believes that by necessity and definition, markets require common rules and processes. The EU's Single Market is based on rules, regulations and oversight bodies that manage, protect and enhance the increasingly efficient free trade of goods and services. This is a big prize. The EU has for many years been driving regulatory reforms to improve transparency and integration of financial markets across Europe. Citi recognises this has been largely beneficial for economic growth and financial stability across the EU.

In relation to **question 2**, Citi broadly supports the principle of subsidiarity. A key objective of policy makers should be the promotion of a fair and efficient Single Market. But this is a long term project which cannot be completed overnight, and will need gradual convergence to smooth the costs of change, or to avoid the unintended consequences of rules that sit badly with local laws or practices. The degree to which uniform rules are needed should depend on the specific market or activity; some markets may simply need consistent principles, whereas others may operate more efficiently with a common rule book. It would therefore be sensible for the EU to agree a flexible system that encourages policy makers to adapt the level at which rules and regulations operate, and where supervision is exercised, and decide on a case by case basis whether central rules or local practices are more efficient, depending on the business involved.

In response to **question 3**, there is some evidence that excessively detailed regulation can confuse consumers. Where possible, regulations should be clear and comprehensible to consumer.

EU legislators should consider expanding the use of 'one in, one out' rulings, and sunset clauses on legislation in order to limit the growing volume of EU rules to that which is absolutely necessary for enforcing and expanding the Single Market.

Further on **question 3**, financial service exports are a key component of the UK's trade balance and the financial services sector is a significant employer. The question of employment does not only affect the City of London; two thirds of jobs related to financial services are estimated to be located in the rest of the country. Citi itself employs a significant number of staff in Belfast, across Operations, Legal and Human Resources. The number and distribution of jobs in the UK depends on many factors, but the UK's on-going commitment to the EU and access to its Single Market is undoubtedly a key factor.

In relation to **question 8**, the UK, historically, has had significant influence in shaping EU rules on financial services as a result of its large financial sector and acknowledged expertise in the field. It is therefore incumbent on the UK to continue to engage and show leadership in this area.

Finally, in relation to **question 12,** looking further into trade balances, ONS data shows that the deficit (goods only) with other EU countries hit a record high of £6.5bn in October 2013, whereas the deficit with non-EU countries fell to £3.3bn. Export volumes to EU countries were down by 5.5% compared to the 2010 average, whereas exports to non-EU countries were up by 16.5%. According to Citi's research analysts this divergence is gradually shifting the emphasis of UK exports. In 2008, the UK's exports to Ireland (goods only) totalled £19.1bn, more than twice the level of exports to China and HK combined (totalled £8.7bn). However, over the last five years, exports to China and HK have risen by 120%, with little change in exports to Ireland. Citi's view is that this is a shift in emphasis, not a reason for the UK to loosen its focus on the EU.

With best regards

Maurice Thompson

Copy: Alan Houmann, Citi