



Llywodraeth Cymru
Welsh Government

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Nicky Morgan MP
Economic Secretary to the Treasury

action.EST@hmtreasury.gsi.gov.uk

20th January 2014

Dear Nicky

**UK Government's Balance of Competences Review - Financial Services
and the Free Movement of Capital: Call for Evidence**

Thank you for your letter to the First Minister on the Review of the Balance of Competences. I am replying in respect of my portfolio responsibilities insofar as it applies to the Financial Services and the Free Movement of Capital Call for Evidence.

The financial services sector is a significant employer in Wales and represents one of our key sectors for growth.

In Cardiff alone, the number of jobs in this sector has grown by 60% in the decade to 2012. We are keen to support measures that promote its further growth; both in terms of direct employment as well as employment related to professional services sectors such as legal and accountancy.

We would support measures taken to enhance the sector, particularly in relation to the setting and monitoring of standards which frame competition. We are concerned that any extra regulation at the European Union level could

potentially have a more significant effect on the UK than other Member States as the sector represents a relatively high proportion of economic activity.

If changes are considered which potentially impact on the sector, these should be assessed fully. For example, the 'interconnectedness' of the UK economy with international markets could put us at a competitive disadvantage if international standards were less demanding or if other Member States applied agreed standards inconsistently.

Whilst recognising that some forms of regulation are necessary, even though they might place burdens on business, it is important that they are not excessive and are proportionate for the issue they are trying to address.

The financial services sector has an important role in facilitating foreign direct investment. We would support measures to reduce and clarify restrictions on the free movement of capital. The ability of the UK to continue to attract foreign direct investment, and for businesses to use it as a European base from which to carry out their operations, needs to be retained.

The consultation document mentions the UK financial services sector 'cluster effect' of sourcing complementary services such as legal, accountancy and consultancy. Wales offers a competitive environment for businesses, and we are promoting our financial services sector and its support services to achieve further growth in this and other sectors.

To this end, access to finance continues to be important to businesses wishing to set up or expand, and it is important that lessons from the financial crisis are recognised, particularly in relation to identifying and responding to risk and the potential for different impacts across regions.

The consultation document states that businesses in Europe are more dependent on bank finance than those in the US. Improving access to finance could particularly assist businesses needing to compete internationally or to match fund to get state support for projects. We would support steps designed to improve financial services and access to finance for business in this global context.

Financial services organisations have an important role to play in facilitating economic development. For example, banks and pension funds invest in property development to provide business premises for financial services and other sectors. We would support measures taken in relation to financial services and the free movement of capital which help to enable and encourage this activity.

We are pleased to note the section on interdependencies with other reviews. In our letter to the Department of Business Innovation and Skills on the Social and Employment review, we expressed concern that the European Union has gradually passed more laws relating to work. We have also noted that your consultation document states that there has been a ten fold increase in the volume of EU law on financial services. There may be scope across these reviews to identify common issues and introduce measures to assist the financial services sector.

Given the importance of this work, the Welsh Government wishes to be kept informed of developments.

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