GlaxoSmithKline plc

Comments in response to

Single Market: Financial Services and the Free Movement of Capital

Call for Evidence

Issued by HM Treasury

October 2013

Cash Management

The evolution of cash management operations within the EU has greatly enhanced GSK's ability to make faster and cheaper cross border payments and collections and also enabled GSK to simplify operational aspects of Cash Management within the EU.

SEPA has been a huge enabler in allowing international companies, such as GSK, to make faster and cheaper cross border payments and collections within the EU. SEPA has virtually eliminated the historical float taken by banks on international (and often domestic) payments within the EU, as well driving extra competition by banks for all EU payment business. Since many banks now charge the same price for international/cross border EU payments and domestic payments, GSK, and many other companies, have elected to make all EU payments and collect cash from one physical location using Payment On Behalf Of ("POBO") and Collection On Behalf Of ("COBO") structures. This has allowed GSK to reduce the number of bank accounts it needs, reduce transaction bank fees from consolidated scale and eliminating the need, in some cases, to use expensive banks in a number of EU member states.

Free movement of capital within the EU has also allowed GSK to sweep daily working capital cash from its many bank accounts in the EU and move this to a single location that acts as a group wide Treasury centre (GSK uses London as the location for their internal Treasury centre). Pooling group cash in this way enables GSK to maximise the use of surplus cash balances in one market to offset a negative position in another EU member state, thereby eliminating the need for expensive external bank loans. In addition to the efficiencies generated on the interest line, this solution also allows GSK to minimise risk by only having cash in countries and Financial Institutions where it feels comfortable depositing/investing surplus funds overnight.

Further opportunities for improvement

Whilst much has already been done to reduce Central Bank Reporting within the EU, there is inconsistency amongst some member states. With the drive for EU standardisation in the payments area, it would greatly help if Central Bank Reporting was applied consistently amongst all member states. Ideally, no Central Bank Reporting requirements would exist for any payment that involved 2 parties within the EU.

Although much has already been done to eliminate the monopolies enjoyed by national banks for certain transactions, protectionism still exists today in a number of EU markets. Today, it is still necessary to use domestic banks in a number of EU member states for certain transactions. It is important that these artificial barriers to trade are removed as they stifle competition and efficiency.

European Capital Markets and Financing

1. The European financial markets have changed enormously since the introduction of the Euro 15-years ago. The benefits in terms of access to capital, efficiency of markets, the range and depth of both the investor base and the markets themselves and the pricing that has been achieved have been material for GSK and its ability to finance our business. Against this, however, the regulatory burden that has arisen across all markets over a similar period has been significant. The financial costs and diversion of management time to address this increased regulation has, also, been significant. For example, the introduction of EMIR regulation requiring every derivative transaction to be reported by a company is burdensome and somewhat unnecessary.

   Within this the principle of subsidiarity has been less significant as the introduction of the Euro and the expansion of the European capital markets as a result of the Euro have, clearly, been Europe-wide developments requiring a Europe-wide approach. The sterling capital markets have also grown strongly over the same period, both in terms of the volume of funding and the range of accessible investors in sterling securities. The uniformity of disclosure requirements and the terms and conditions of securities issued within the EU has clearly contributed to this growth to the benefit of many issuers and investors.

2. The relevance of regulation and its ability to enhance the efficient functioning of markets should be the key concern when any new legislation is considered. The quantity of EU action should be limited to only that which benefits the efficient operation of the markets themselves. All legislation should be applied equitably across the EU and should not or be applied in an inconsistent fashion.

3. The major positive of EU-wide legislation of the wholesale financial markets has been the establishment of the Euro and the resulting increase in competition across the EU in the much larger market that has arisen. The impact of this legislation on competitiveness and consumer/investor protection should have been largely positive. However, EU legislation favouring domestic institutions that facilitated the inefficient (and inappropriate) investment of capital across the European banking sector prior to 2007 is a very clear example of how EU rules materially impaired financial stability and growth.

4. Both the weight and detail of much EU legislation is considered to be excessive. The cost burden this legislation imposes is unwelcome for all companies, with smaller companies likely to suffer disproportionately.

6. The role of regulation with regard to retail investors should be to prevent such investors being exposed to disproportionate risk and volatility. Increased regulation may not, in all cases, guarantee this outcome. If the costs of increased regulation are borne by borrowers the likely outcome will be less choice and lower returns as smaller companies may find the cost of accessing retail markets to be prohibitive

7. Fewer regulatory bodies are preferable as long as this does not result in increased cost and inefficiency. The effectiveness of the ESA's has been hampered to date by inadequate staffing and skill levels.

8. The UK's somewhat "arms length" view to engagement with EU bodies appears to have limited the presence and influence of UK legislators on the EU stage. Greater perceived engagement and involvement by UK representatives should be beneficial.

9. The weight of financial services legislation emanating from the EU has been considerable and, as a result, the ultimate effectiveness of the legislation may have been undermined. The review periods can be very long and the original objectives of the legislation can, as a result, be undermined. The impact of changes in financial services legislation on the corporate sector can be significant but this is not always apparent to the regulatory bodies themselves (for example, the costs of bank facilities and swap transactions for companies have increased considerably whilst the availability of these corporate finance tools has reduced).

11. The European commercial and financial markets are very important to UK companies who operate across mainland Europe and the rest of the world. Maintaining access to this market and its financial services sector is crucial for GSK and all internationally-focussed UK companies. The role that continental investors play is also very important. Furthermore UK participation in the formation of European legislation regarding healthcare policies and financial markets is vital.