

Lord Harrison to move that this House takes note of the report of the European Union Committee on the EU Financial Supervisory Framework: an update

Baroness Valentine House of Lords speech

12 January 2012

I declare that I am chief executive of London First, a not-for-profit business membership organisation which includes financial institutions amongst its membership. I am also a Board member of a Triple Point Venture Capital Trust.

Introduction

It is very easy, when discussing complex regulatory matters, to focus disproportionately on the detail of the regulations themselves. The risk is that we lose sight of the purpose of the regulatory regime and whether it is fit for that purpose. For that reason, I greatly welcome today's debate.

Context

The regulation of the financial system, globally, in Europe and here in the UK is going through tremendous change. This is an understandable reaction to the banking crisis of 2008 – and necessary to restore public confidence in the system. But the impact is doubled in the UK thanks to the fact that we are simultaneously implementing a wholesale restructuring of our own regulatory regime – little more than a decade after the last such major change.

In my contribution today, I would like to touch briefly on three issues that arise from the UK's changing regulatory structure and its relationship with its European counterparts. Firstly: the importance of protecting the international competitiveness of our financial services sector and therefore our potential for growth; secondly the need to ensure optimal coordination and collaboration between the new domestic supervisors and their European counterparts; and thirdly, the need to resource all these regulators appropriately.

Firstly: ensuring the UK is globally competitive

Whilst the financial sector has been an unloved one since the credit crisis, emotion should be superseded by good economic sense when determining how it is policed in the future. This is important because the financial sector in the UK employs around a million people directly and many more indirectly. It is also a major contributor of income and corporate tax revenue. Finally, as we attempt to increase exports to compensate for stagnant domestic demand, financial services are a vital source of future growth, as one of our primary export industries.

Across the piece, the financial sector exists to provide essential services – to governments, businesses and individuals. The more effectively it can provide those services, the better for us all.

In this context I am surprised that the government has failed to include ‘the international competitiveness of UK financial services’ within the objectives of the successor bodies to the FSA. It seems wholly inconsistent for the Prime Minister to wield a veto in Brussels at great political expense, ostensibly to defend the City from uncompetitive EU regulation, only then to exclude ‘competitiveness’ from the remit of our domestic regulators. Margaret Cole, interim managing director at the FSA – which will form the core of the new FCA – has publicly supported the inclusion of such an objective. I would urge the government to take note.

Secondly: ensuring UK influence in Europe

Indeed, if the UK’s interests are to be given due consideration as the new European regime develops, we need to ensure that we have the right people, in the right meetings, saying the right things.

Staff at the new UK regulators will have a key role to play in contributing to Europe-wide decision making, through regulatory colleges, for instance. There is a potential risk here in that the UK’s new “twin peaks” model does not mirror the structure at EU level. Consideration of retail banking regulation, for example, may well require insights from both a prudential and conduct of business perspective. As a result, when seeking UK representatives for ESA meetings, the UK may find itself trying to fit square pegs into round holes.

So it is vital that our new agencies are joined-up in their approach and that there is effective dialogue and information sharing between them. I welcome the government's promise to legislate to require Memoranda of Understanding between the major players: the Treasury, the FCA, the PRA and the Bank of England.

However, can I refer the minister to the draft report of the Joint Committee on the Draft Financial Services Bill? This recommends establishing a committee to ensure the UK authorities agree consistent objectives and exercise their functions accordingly. This further safeguard would give significant reassurance to the industry.

Presenting a single, coherent voice with maximum influence in the international context is vital and should not be left to chance.

Thirdly: resourcing our regulators properly

Finally, let me turn to the quality of regulatory staff. All of the new European Supervisory Agencies, the successor bodies to the FSA, the Treasury and the Bank of England need high quality staff to deal with the extraordinary challenges that this sector faces.

It is therefore vital that the new supervisors, at both UK and European level are not only adequately resourced in terms of numbers, but also offer sufficient remuneration to attract and retain the brightest and the best. In many cases, the best way of achieving this is to bring in employees who have worked, or are working, within the industry and a more flexible approach to secondments from industry would be beneficial.

I am heartened by the report's recognition of the contribution that UK regulators, as supervisors of the largest and most sophisticated markets, have historically made within the European supervisory context. I hope that the expertise and experience of our regulators will continue to play an important role within the ESAs and I encourage the FSA and its successors to provide more experienced staff to assist the new supervisors as widely as possible. We, and our European partners, have a common interest in ensuring their success and such engagement can help to ensure that we achieve a coordinated and committed European approach, rather than one in which individual member states operate unilaterally.

To conclude

Over centuries, through many crises, the UK has built a competitive advantage, a global reputation for being a safe and honest place in which to do business and offering a deep pool of knowledge and expertise that have made it at least one of the world's leading financial centres, if not *the* No.1.

It is right to review our regulatory arrangements in view of the recent economic turmoil but one is left to wonder if there is a limit to the number of times we need to reinvent this particular wheel. What is paramount is a stable and successful financial system which supports the country's continuing economic growth.