



Bankers and Merchants

The Mansion House

Wednesday, 16 June 2010

The Rt Hon The Lord Mayor of London
Alderman Nick Anstee

Mr Chancellor, Mr Governor, Your Excellencies, My Lords,
Ministers, Fellow Aldermen, Mr Recorder, Sheriffs, Ladies and
gentlemen:

Welcome to Mansion House and an especial welcome to you,
Governor, and to you, Chancellor, on this, the occasion of your
first Mansion House speech to the financial services sector and
the wider economy. We are always happy to welcome
Chancellors, especially prudent Chancellors, to this House!

Chancellor, I hope you have already detected this evening a
large measure of goodwill from bankers and merchants - and
an equally large measure of expectation!

The vigour with which you and your colleagues have already begun addressing the financial realities facing our nation, has alleviated any doubt there may have been about the workability of the Coalition.

But, as you acknowledge, you alone cannot solve our problems. We are all in this together. Thus, Chancellor, I hope that the call for the City to be 'cut down to size' has ceased. Whilst we understood the sentiments that gave rise to this, we must not forget that finance is the lifeblood of Britain's manufacturing and wider services industries. Without funding, machines are not made, products are not produced, there is no budget for innovation and services go unprovided.

After all, one successful sector of the economy does not have to be diminished in order to encourage the other. A strong British economy is fuelled by a strong British financial centre. Indeed, this has been the case since at least the late 17th Century and is truer today than ever before.

The financial services sector and the rest of the economy are inextricably linked. Break one and you wound the other. Chancellor, if we want to work on rebalancing the UK economy by growing other economic sectors, then it will take the

support of the banks, the capital markets, private equity and venture capital to make it happen.

That is why we have been particularly pleased that since your election, you, the Prime Minister, and your ministerial colleagues have said time and time again that you are determined to support private sector recovery, promote inward investment and ensure that the City remains a valuable cluster of specialist expertise.

So this evening, I would like to say as firmly as I can that we here, both from the financial services sector and the mercantile side, are determined to help make national recovery become reality.

We need the Government to create an environment for business to flourish. But to do so we also need a strong and vibrant City, by which I mean all UK-based financial and related professional services all giving us our leading place in the commercial world.

Chancellor, you and the Governor know how useful we are – and must continue to be - in aiding the recovery. Last year, UK financial services contributed 12.1% of the UK's total tax amounting to £61.4 bn, which, it is worth noting, is 142% of the interest cost of the current public sector debt.

If we in the City are to play our part in the nation's recovery then together we must do nothing to stop the world beating a path to our door. So what can we do to keep that door open?

First, we need the commitment to create, maintain and enhance our competitiveness within a readily understandable long-term framework. When I came into office last November, I called for a business environment of predictability, stability and clarity. I was, therefore, delighted to hear a similar message in your recent CBI speech. If you can advance this, then you will empower business all over the UK.

Indeed, this was a point made in the recent debate on competitiveness in the House of Lords, initiated by Lord Levene. I was delighted that such an important subject was addressed so soon, or should that be Sassoon, in the new session by their Lordships' House. And congratulations, James, on your maiden speech last week.

Secondly, taxation and regulation. We need taxation which is demonstrably fair, consistent and predictable and which sends out the right signals to overseas investors.

We also welcome the announcement that the Bank of England, with its clear remit for monetary policy, is destined to strengthen the link between financial stability and macro-

economic policy. It seems logical that the lender of last resort should have a greater authority in macro-prudential regulation.

For the sake of the economy every business in this land needs sound and appropriate regulation. As for the financial sector, the search for better regulation has historically triggered the natural default of descending into reams of regulation and regiments of regulators. As we all know, that approach has not worked so far. Why should we expect it to do so now?

Is it a correct response when rules are overwhelmed by unforeseen circumstances, simply to update them? Or should we, instead, conclude that one should be less constrained by rules and have more scope to exercise judgement – albeit better judgement?

Thirdly, we need to welcome skilled financial workers from the global pool of talent. They are the life blood of our international finance centre. Only twenty years ago the banks gracing this dinner would nearly all have been British. Now we enjoy the huge diversity of interests in the modern City with more than 250 foreign financial institutions. We are grateful for the vibrancy, the challenge, the competitiveness that they bring to London. We must do nothing to drive them away.

Beyond the British Government, there are other players on the field. I, refer, of course, to the G20 and the European Union.

The G20 meeting in ten days time in Toronto cannot come soon enough if domestic political expediency and regulatory arbitrage are not to triumph over global co-ordinated strategy.

Are we expecting too much from the G20? I hope not. But it will take all of Britain's political, economic and moral clout to press other countries to implement the commitments they have made to, for example, compatible standards and a drive against protectionism.

We need to be pragmatic about the G20. I run marathons and if you run marathons you need a strong sense of patience as well as perseverance and stamina. Patience is a virtue, but we must keep up the pressure for progress.

The other institution which has an increasing say in all we do is, of course, the European Union.

Chancellor, we welcome the positive statement in your Coalition Agreement that the new Government will bring a fresh, positive approach to Britain's engagement with Brussels. This is very good news.

We must begin engaging earlier and influencing the debate at the outset. Too late we defended the hedge funds and private equity. Now we will be paying the price of new and

unnecessary regulation through the Alternative Investment Fund Managers Directive. A regulation which will make it harder for Europeans to invest outside the EU, and thereby make it harder for us to make the best investments to secure our pensions and our savings for the future.

Fortunately, we appear to have learned our lesson as we are now engaged in the process of drafting the derivatives directive.

Yet we have more work to do if we are to influence the Tsunami of financial legislation set to come from Brussels. Legislation which could damage our competitiveness. Yet I take some comfort in what Michel Barnier said to me recently: 'I believe in a strong City... I do not want to undermine the City, on the contrary, I fully understand its importance and I want it to be an even more vibrant powerhouse for the UK and for Europe.'

The way ahead for us here in the City is clear:

- We have to work with Europe.
- Shape the G20 agenda.
- Engage in constructive dialogue with Government to ensure that London remains the economic heart of Europe.

- And contribute our extensive intellectual leadership on banking and financial services to benefit the whole of the EU.

Chancellor, Governor, you will not be surprised to hear that I have some observations about banks. We need to move away from singling out banks to blame, and, by implication, the City for that matter. Based on my visits to some thirteen countries so far this year as Ambassador for the financial services industry, I can tell you the City is still the envy of the world.

But that reputation is not God-given. And there remains more to do. Financial services are more mobile than most other sectors of the economy. If we tear down what we have spent generations building up, the wind will howl through an empty Square Mile and Canary Wharf - and our newly-rich competitors in the Far East will marvel at our short-sightedness. As indeed I know from my recent conversations with Asian finance ministers and bankers. They said that London would retain most of its global appeal if it avoids taxation or regulatory overkill. A number of them also commented that the direction of current policy in London is 'scary'.

We must not forget that in the global economy, there is a special role for London. We must help to set the standards worldwide and we must carry on taking the lead.

Our position in the world of banking and commerce gives us authority. But it also gives us an exceptional responsibility in reshaping the global banking system. We must aim towards the right balance between regulation and economic impact.

So I trust the independent banking commission will take a long-term strategic view when looking at banking reform and will not just focus on the possible separation of retail from wholesale banking, but will look at all the options for addressing the challenge of banks being 'too big to fail' and the moral hazard arising from deposit insurance. After all, it was not the integrated banks that failed.

From what I hear other major countries have no intention of splitting up their banks. The unique position of the City makes it a duty for us to protect our competitiveness by welcoming diverse business models and to protect them all.

But no matter how it shakes out, we have to design reformed banks which are not only big enough to cope with the unexpected but can 'put capitalism back into the heart of capitalism' and that means, yet again, competition and the freedom for individual institutions to fail.

Furthermore, we need all employers in the sector to pay considerably more attention to the ethics with which their employees are imbued. We don't want people just to follow the

letter of the law. We want them to follow the spirit as well. For we fool ourselves if we do not realise that trust has broken down between the British public and the banks. Yet not all banks have failed and this crisis from which we are emerging is not the responsibility of banks alone.

But the industry must not forget, any more than the rest of us, that its licence to operate depends on being accepted as socially useful – as well as being economically and fiscally desirable and being seen to make a fair contribution to society.

This is, of course, exactly what much of the City already does by applying its wealth and talents to the service of others. The Lord Mayor's Appeal this year, for example, is a programme for disadvantaged young people called PitchPerfect, comprising the LSO *On Track* project and the Cricket Foundation's *Chance to Shine* initiative helping young Londoners acquire skills and self-esteem through the thrill of learning music and sport. We are very grateful for the generous support we have already received

The banks and their employees play a major part in this philanthropy as does the much-maligned hedge fund industry whose members pour millions into children's charities each year.

Yet the man on the Clapham omnibus believes two things about our domestic banks: they have shown little if any contrition. And they are not lending to small and medium sized industries nor to the exporters who should be driving our recovery.

But a question should be how many businesses are looking to take on extra borrowing at a time when they are reducing their liabilities? No matter how that question is answered, if perceptions about social usefulness and lending are ill-informed, then it is up to the banks and their allies to wipe the glass clean.

Now Chancellor at the outset of my remarks, I offered you and the Governor our commitment to work in partnership with you. And to that end the City Corporation, working with the Treasury, the Mayor of London and others have facilitated the creation of a new body, TheCityUK. An independent, practitioner-led, cross-sectoral membership organisation, it will promote UK financial services abroad as well as address the widespread lack of understanding of the role of finance in the UK economy. I wish it well.

In conclusion, the City is resilient. The City takes change in its stride. The financial crisis produced challenges, but we are determined to continue to generate business and international

influence, bringing wealth for the good of the nation and Europe.

Thus Chancellor, we look forward to working with you and wish you well. Now may I ask everyone to stand, save you, Chancellor, as I propose the toast to:

PROSPERITY TO THE PUBLIC
PURSE
AND THE HEALTH OF THE
CHANCELLOR OF THE EXCHEQUER

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