

# The City will remain the world's financial hub

**T**HE CITY of London is in a strong position to maintain its status as the world's financial capital. Many of the City's strengths are deeply embedded and therefore "Brexit-proof". Moreover, London is in pole position to become the centre of global fintech.

But we cannot be complacent. The international environment is competitive. The biggest challenge comes from New York, where the deregulation agenda aimed at improving its competitiveness that was talked about prior to the global financial crisis is now back on the agenda.

While there are a host of niche financial centres in western Europe such as Zurich, Frankfurt, Luxembourg, Geneva, Paris and Dublin, none of these have the infrastructure or depth of market to challenge London.

While the vast bulk of firms want to keep their operations in London, some have contingency plans given the fickleness of the government's Brexit planning. Despite this, many firms are still expanding in London, as its starting position is strong.

Immediate attention is on the terms of the future relationship with the EU, including a transition deal and the ease of attracting skilled labour. The key issues include where will the clients want to conduct business – namely where will the market be – and what will the regulators decide, too?

Attention has also swung to



The City is the only truly global mega city in western Europe, writes Dr Gerard Lyons

technology. Since the referendum, the major tech firms have committed new investments in London, to make it their global tech hub, outside of Silicon Valley. Given the growing interaction between finance and technology, this is a big positive.

Meanwhile the City's Brexit-proof features will stay, regardless of the UK-EU negotiations. These include: the English language; independent courts and institutions; and the importance of English common law across the globe and how we uphold contracts. To this can be added the London vibe, and that it is the

only truly global mega city in western Europe: a place where people want to live, work and study.

In a research paper released today by the Institute of Economic Affairs I look at these issues influencing the City's competitive position.

A hot topic is passporting, the ability to sell services across the European Economic Area, which came into its present format in 2007. It does not explain London's dominance but is important for some firms' business models. Fear of losing this can be addressed either through enhanced equivalence, with a bilateral

UK-EU agreement providing for certainty of equivalenced-based access, or via a financial centre model.

This would allow the UK to establish a market-friendly regulatory framework, set in line with global standards and best practices, and to welcome businesses that meet these standards to the UK.

Another area, often overlooked, is London's ability to attract global listings – highlighted over the last year by the international competition to attract Saudi Aramco's proposed listing.

To attract the listing the UK authorities were prepared to exempt

state controlled firms from the rule that at least a quarter of the company must be sold in order to gain a premium listing. This move highlighted the benefits of an accommodative listing policy in a competitive environment.

London must also retain the listings it already has. The potentially vulnerable area is the major companies with a dual listing on London and on another exchange. These include: Unilever, Rio Tinto, BHP, Reed Elsevier, Carnival, Mondy and Investec.

They have a market capitalisation in London of \$235bn (£166bn) and elsewhere of \$259bn. The downside would be to lose this \$235bn, the upside to retain it and attract an additional market capitalisation to London of \$259bn.

This is a swing factor of half a trillion dollars.

In this vein, the UK Listing Authority and FTSE Russell must be flexible in interpreting their rules to ensure continued access to the UK markets and indexes, such as the FTSE 100 for key international companies.

This is just one example of how London can respond flexibly and speedily to optimise future international opportunities, and send a clear, positive global message. London needs to adapt and change but also play to its strengths to stay ahead of the international competition.

Dr Gerard Lyons is chief economic strategist at Netwealth Investments.