HOUSE OF LORDS

Roundtable Meeting

On 23 July 2013, the House of Lords European Union Sub-Committee on Economic and Financial Affairs held a roundtable meeting with representatives of charities, campaign organisations and trade union representatives. This is a note of the discussion.

Lord Harrison opened the discussion by providing details of the Sub-Committee's recent meeting with TheCityUK where Members explored issues important to their work. He emphasised the importance of hearing other points of view. He asked each participant to introduce themselves and the organisation they represented (details can be found at Annex A).

Pierre Habbard, Senior Policy Advisor, International Trade Union Confederation stated that the austerity drive in Europe was a major mistake. He did not accept the argument that the bond markets were an immediate danger. He indicated that the major barrier to recovery was reform of the financial sector. He was clear that labour market flexibility was not the cause of the crisis.

David Hillman, Stamp Out Poverty, discussed the Financial Transaction Tax (FTT). A great deal had happened. A key moment was on 22 January when 11 Member States has taken the decision to proceed with the FTT under the enhanced cooperation procedure. He said that the rumours that it would be weak and half-hearted were just rumours. There was much discussion needed on the scope of the tax. There were ongoing discussions about what loopholes might be necessary. It was his view that there shouldn't be any loopholes. He agreed with Mr Habbard that the focus on austerity was flawed and that a stimulus was required. New sources of finance were required for this stimulus.

Ben Hughes, Chief Executive, Community Development Finance Association stated that reform of the banking system lay at the heart of economic reform. A number of things would compliment an FTT: disclosure of bank information, a ranking system of banks based on investment at local level, and fiscal incentives (he highlighted a medley of tax relief measures to encourage investment that were woefully underused and needed to be harmonised).

Petros Fassoulas, Chairman, European Movement emphasised the importance of viewing it as a European crisis, rather than just a euro area crisis. There had been a lowering of interest rates across the EU, and in the UK we had seen quantitative easing and devaluation. He agreed that focusing on austerity was wrong but he warned against trying to find a uniform answer (for example, infrastructure investment) for all countries.

Lydia Prieg, Researcher, New Economics Foundation discussed the bankers' bonus cap. She believed that the Parliamentary Commission on Banking Standards had focused too heavily on symptoms rather than causes (e.g. personal responsibility). The bonus cap was an example of focusing on symptoms. There needed to be a greater focus on structures: the

UK banking sector needed to be much more diverse. Germany had a very diverse, three pillared banking system (comprising savings banks, co-operative banks and commercial banks) whilst in the UK, 84% of the banking sector was commercial. She highlighted data that showed co-operative banks lent much more to SMEs and this was explained by them being more localised.

Lord Dear asked, setting aside the idea of whether the FTT was a good idea or not, where would (or should) the money collected via the tax go. Lord Hamilton stated that Angela Merkel had been clear that the FTT was never going to happen and she had only supported it due to the upcoming election. He added that many euro area countries jumped into monetary union before they were ready and pointed to Iceland as an example of a country that had experienced a swift economic recovery partly due to being outside the euro area.

Mr Hillman agreed that the FTT was optimistic but stressed that it was on track. He highlighted the huge profits made by the banking sector each year. The UK Government had accepted that the banking sector needed to be taxed more heavily. He emphasised that the FTT was not a 'Brussels tax': the revenue would be returned to the national exchequers of those participating. He indicated that Germany viewed the FTT more positively than many believed. They saw it as good economics, encouraging people to take decisions over longer time horizons. If a grand coalition was formed after the elections then it was likely that an FTT would be high on the agenda.

Mick McAteer, Director, The Financial Inclusion Centre emphasised that the US had massive internal transfers. With regards to the FTT, he accepted that people had conflated its two goals: revenue generation and its impact on speculative trading in the financial system. He believed the latter was more important given the cost to the economy of such speculative activity (estimated to be around 2% of global GDP). Reducing this value destruction would create a more efficient and competitive financial system.

Lord Monks said his one criticism of the EU was the application of moral hazard to countries but not to banks. He highlighted the fact that Germany's debts were wiped out after the Second World War but this had been forgotten. He had taken issue with the Committee's report on the FTT. This report had found many practical objections rather than looking at how these problems could have been solved.

In addressing the question of where proceeds of the FTT should go, Mr Hughes stressed that it was not just about revenue. He had commissioned work into the finance gap and found there was a gap of £6bn of capital that SMEs were being starved of. This analysis would soon be able to indicate where, down to postcode level, these gaps were.

Bethan Livesey, Policy Officer, ShareAction highlighted that, in light of austerity, there was a role for pension funds, which could act in a countercyclical manner investing against long-term horizons. The EU had recently been looking into the issue of long-term investing but instead needed to look at the overall culture of investment. Christine Berry, Head of Policy & Research, ShareAction said that pension savers had been painted as a target of the FTT but that this should only be the case if funds were engaging in excessive trading, which may itself not be in the best interests of pension savers. The debate about the FTT is inextricably linked to the wider debate over short-termism and excessive intermediation in the pensions industry.

Lord Davies of Stamford said that the financial sector was under-taxed. 0.5% stamp duty had not damaged the City of London. He did worry about the estimated loss of GDP that was associated with an FTT, along with the fact that it could destroy high frequency trading and reduce liquidity in the market. These issues needed to be addressed.

Lord Hamilton of Epsom was clear that an FTT would not change behaviour, it would just move it elsewhere. There needed to be recognition that this was a global market. People in the City of London were very smart, they would think up something else. He agreed with Ms Prieg that banks should be broken up, but it was expensive to create Chinese walls.

Thierry Philipponnat, Secretary General, Finance Watch agreed with Ms Prieg that bankers' bonuses were a second order issue (i.e. a consequence rather than a cause). The bonus came from rent that was extracted from society. This rent existed due to the implicit safety net created by governments. Bankers' bonuses wouldn't matter if it wasn't that large profits were being made to the detriment of society. On bank resolution he said the key question was who should absorb the losses: creditors or taxpayers. There was a strong feeling that it should be taxpayers but the amount of lobbying over this had led to a number of exemptions. As a result, taxpayers would still partly be involved. He emphasised that the UK was the only country with legislative proposals that would address some of the structural issues (unlike Germany or France). It was not only about who should pay when a bank failed but about avoiding competitive distortions. Large banks paid bonuses whilst small banks did not and this was due to the implicit subsidy (the view that large banks were 'too big to fail'). It was crucial to have banking reform that wasn't watered down.

Viscount Brookeborough asked about aggressive tax avoidance and when a clear definition of this would be agreed on. The Earl of Caithness emphasised the importance of complete separation of retail and investment banks.

Mr Philipponnat responded by stating that aggressive tax avoidance took place everywhere. It required two key elements: bank secrecy and free movement of capital. Getting rid of tax avoidance was not that difficult but was essentially a political decision. He emphasised that all banks were in the business of tax avoidance.

Lord Vallance of Tummel stated that once the ECB got round to proper stress testing of banks, it would no doubt reveal the number of zombie banks in the system. In the meantime it seemed foolish to add taxation to these already struggling banks.

Mr Hillman highlighted that the financial sector was VAT-exempt and thus benefited from an implicit subsidy. Commissioner Semeta had revised the FTT impact assessment but the key thing that was missing was the impact of smart spending of the resources from the FTT. He stressed that pension funds would benefit from the FTT since countries with broad FTTs had seen better pension fund performance.

On the issue of too big to fail **Ms Prieg** stated that her organisation was pushing for the UK to go further than Vickers. She supported the direction but felt it was important to go further. There seemed to be a reliance on other measures to mop up other problems in the banking sector but these measures themselves gave rise to their own problems. For example, measures to deal with central counterparties risked making these institutions too big and thus creating another too big to fail problem.

Mr Habbard stressed the importance of distinguishing between asset managers and asset owners. On the too big to fail issue he asked whether supervisory authorities were in a position to read the balance sheets of big banks and identify where the problems were. He emphasised the increased concentration of banks and indicated that a proper resolution framework was important but was being delayed. In relation to resolution, he had concerns about workers' rights in banks.

On austerity, **Professor Iain Begg, Specialist Advisor to the Committee's Genuine Economic and Monetary Union inquiry**, asked if there was any realistic alternative given that Germany was unwilling to consider any other course. **Lord Flight** said that the euro area economies needed to become more competitive and also required a Marshall Aid equivalent. **Lord Marlesford** stated that the retail economy was improving but this was against a backdrop of a great deal of largely unquantifiable debt. Whilst you could quantify sovereign debt, banking debt was much more difficult.

ANNEX A - Details of participants

Thierry Philipponnat, Secretary General, Finance Watch

Finance Watch is a Brussels-based public interest association dedicated to making finance work for the good of society. Set up in 2011 as a counterbalance to the financial lobby on the initiative of members of the European Parliament, Finance Watch states that its mission is "to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and the public as a counterweight to the private interest lobbying of the financial industry."

After graduating from the Institut d'Etudes Politiques de Paris and training as an economist (Diplôme d'Etudes Approfondies en économie), Thierry started a career in finance in 1985. His 20+ years' experience ranges from trading to devising structured equity products. In 2006, Thierry joined Amnesty International, with a particular emphasis on the impact of the financial sector on human rights. He was later elected as an Executive Board member of Amnesty International France.

Christine Berry, Head of Policy & Research, ShareAction and Bethan Livesey, Policy Officer, ShareAction

ShareAction promotes responsible investment by pension funds and fund managers. Bringing together leading charities, trade unions, faith groups and individual investors, their aim is to catalyse a shirt at each level of the investment chain, so that responsible investment becomes the norm. ShareAction's aim is to improve corporate behaviour regarding environmental, social and governance issues. The advocacy group focuses on encouraging pension funds to implement responsible investment strategies. The charity engages with corporations through shareholder actions. Its work is driven by the fact that people indirectly have shares in companies through their participation in pensions schemes and other financial products.

Christine leads ShareAction's public policy engagement and is also responsible for the organisation's research. She joined ShareAction in March 2010, having previously worked as a parliamentary researcher. She has also overseen a variety of environmental and investment-related campaigns.

Mick McAteer, Director, The Financial Inclusion Centre

The Financial Inclusion Centre is an independent, not-for-profit think-tank. Its aims are to:

- Promote greater financial inclusion and provision so that consumers' core financial needs are met; and
- Promote fair and inclusive, efficient and competitive, well-governed and accountable, properly regulated financial markets.

It focuses on two groups of consumers: consumers who could be, but are not, providing for themselves and consumers who are not commercially viable for mainstream financial services and need alternative solutions to meet their core financial needs.

Mick McAteer is founder and Director of The Financial Inclusion Centre. He has over 20 years experience in financial services. He holds a number of other positions including:

- Board member of the Financial Conduct Authority (FCA);
- Chair of the European Commission's Financial Services User Group (FSUG);
- Member of Caritas Westminster advisory board;
- Member of The Registry Trust Consumer Panel.

David Hillman, Stamp Out Poverty

Stamp Out Poverty has been working since 2005 on new and innovative sources of finance for development and climate change. It is one of the founding members of the Robin Hood Tax campaign, a coalition of more than 100 organisations (including Oxfam, the TUC, Friends of the Earth and War on Want) working towards the implementation of Financial Transaction Taxes (FTTs).

Ben Hughes, Chief Executive, Community Development Finance Association (CDFA)

The CDFA is the trade association for Community Development Finance Institutions (CDFIs) in the UK. CDFIs provide credit and financial services to markets that are underserved by the high street banking sector. In the UK, CDFIs serve three main markets: micro, small and medium businesses; social enterprises; and individuals who are financially excluded.

Pierre Habbard, Senior Policy Advisor, International Trade Union Confederation (ITUC)

The ITUC's primary mission is the promotion and defence of workers' rights and interests, through international cooperation between trade unions, global campaigning and advocacy within the major global institutions. The ITUC represents 175 million workers through its 311 affiliated organisations within 155 countries and territories.

Lord Monks, former General Secretary of the TUC and ETUC

Lord Monks was the General Secretary of the Trades Union Congress (TUC) in the UK from 1993 until 2003, when he became the General Secretary of the European Trade Union Confederation (ETUC). He has also sat on numerous other bodies, including Acas from 1979 until 1995. In 2000, he agreed to chair the Co-operative Commission, reporting in 2001 with recommendations for the co-operative movement. Since 2008 he is Vice-Presidency of European Movement international.

Petros Fassoulas, Chairman, European Movement

The European Movement is a not-for-profit, independent, all party and grass roots organisation. They call for closer integration and co-operation at the EU level in areas where collective EU action can deliver better results than individual member states can when acting on their own. They also want more powers to be given to the democratically elected institutions of the EU and more popular involvement in its intergovernmental decision-making structures.

Lydia Prieg, Researcher, New Economics Foundation (NEF)

NEF is an independent think-tank that aims to promote innovative solutions to major economic, environmental and social challenges. Its programmes include work on well-being, new kinds of measurement and evaluation, sustainable local regeneration, new forms of finance a new business models, sustainable public services, and the economics of climate change.

Lydia is part of NEF's Finance & Business team, researching how the banking system and international capital markets could be restructured to make them more fair, stable and sustainable. In particular, Lydia is interested in the lessons that can be learned from overseas, and has examined and mapped the banking systems in 65 countries to identify alternatives to large commercial banks. Lydia is also undertaking research into a wide range of other issues, including the too-big-to-fail problem, tax avoidance, the sovereign debt crisis, regulation of derivatives and capital flows, reform of the credit rating industry, private investment in developing countries, and competition problems in UK retail banking.