{ BANKING REGULATION }

JEREMY WARNER

Is the City's future as a financial centre under threat? wonders Jeremy Warner

In his Mansion House speech to City grandees in early June, George Osborne, the UK chancellor, promised a 'new settlement' for finance.

After years of relentless banker bashing, fines, compensation payments and regulatory assault, Mark Carney, governor of the Bank of England, similarly signalled the chance for a fresh start. Behave yourself, and you can expect enlightened, even sympathetic treatment, he seemed to be saying.

But will promises alone be enough to stop HSBC, Britain's largest bank, from going through with its threat to up sticks and re-domicile back to the Far East? HSBC's review of whether it any longer makes sense to have its HQ in Britain has become totemic of wider City unease over the extent of the post-crisis regulatory backlash.

There are special reasons why HSBC might want to return to its place of origin, Hong Kong, but, even so, its decision will be of huge symbolic significance. If it leaves, its departure will be seen as emblematic of decline in what had become the world's pre-eminent international financial centre.

HSBC cites four reasons for going: the banking levy, which disproportionately affects HSBC; proposals to 'ring-fence' domestic retail banking operations from international banking; Britain's pending referendum on membership of the EU; and the so-called 'senior managers regime', which makes executives down to quite junior levels personally responsible for any breaches under their watch, even though they may not know about them at the time. These four concerns neatly encapsulate wider City unhappiness with an ever more onerous regulatory environment.

Yet if Osborne and Carney intend to do anything about them, there was, at the time of writing, very little sign of it. The banking levy might be tinkered with, or reformed in a manner that is less onerous on HSBC, but fiscally, there is very little space for abandoning it entirely. Deficit reduction must, in the chancellor's eyes, always take priority. Having committed to not raising any of the main sources of taxation, Osborne has little room for concessions on business and banking taxes. The government is proving similarly obstinate with the 'ring fence', even though other regulatory changes, including hugely increased capital requirements and a much more effective resolution regime, seem to have rendered it largely unnecessary.

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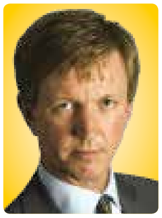
For a big, international bank such as HSBC, there is little point in owning a UK retail bank if it has no control over its capital and management, which is in effect what the ring fence does. HSBC might as well demerge or sell it, at which point there is also little purpose in remaining domiciled in the UK. As for the senior managers regime, the Financial Conduct Authority is refusing to budge.

Uncertainty over Europe provides a further reason to leave. Closeness to international finance is one of the reasons so many global companies choose to locate their European HQs in London. If the City is diminished by an exit from the EU, it might set in train a mass exodus of these head-office functions. This would, in turn, make London less attractive for international finance.

Bankers only have themselves to blame for the regulatory backlash that has befallen them. They are in no position to complain. Any pushback only invites further punishment. Yet expansionary finance is also essential to economic growth, and if by making banks safer, you also make them more risk-averse and less inclined to lend, there will be a problem. Never mind the direct effects on an industry that is a rich source of high-value employment and taxation. The chancellor needs to match words with action.



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