Sizing up the City – London's Ranking as a Financial Centre

June 2003

CSFI

Centre for the Study of Financial Innovation

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Sizing up the City: London's Ranking as a Financial Centre is published by the Corporation of London. This report was written by David Lascelles, with research assistance from Denis Lapotko and Mark Pitcher, from the Centre for the Study of Financial Innovation. Consultant to the project was Benedikt Koehler.

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The Centre for the Study of Financial Innovation is a non-profit think-tank, established in 1993 to look at future developments in the international financial field - particularly from the point of view of practitioners. Its US affiliate, the New York CSFI, was set up in 2002. The goals of both institutions include identifying new areas of business, flagging areas of danger and provoking a debate about key financial issues. The Centre has no ideological brief, beyond a belief in open and efficient markets.

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Executive summary

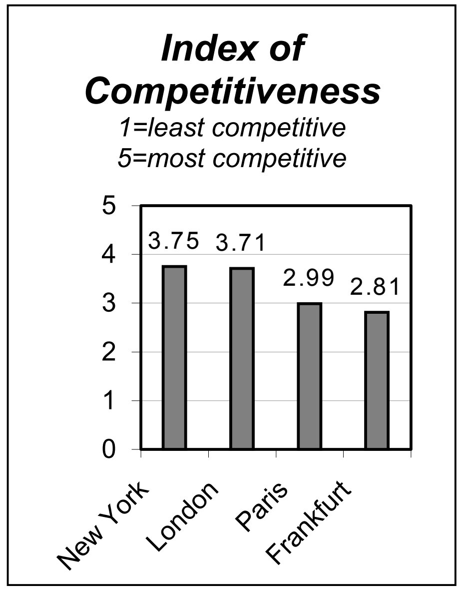
About this report

In this report we explore the perceptions held by a wide range of City practitioners and observers of London's competitiveness as a financial centre compared to New York, Paris and Frankfurt. We obtained input from 350 institutions: banks, fund managers, insurers, technology providers, professional firms, trade associations and public officials by means of questionnaires and interviews. More than half the firms we spoke to were under non-British ownership.

Findings

London comes a close second to New York in terms of international financial centre competitiveness, and some way ahead of Paris and Frankfurt. This is based on an Index of Competitiveness that we compiled out of survey responses which ranked the key attributes of financial centre success as follows:

1. **A pool of skilled labour;**
2. **A competent regulator;**
3. **A favourable tax regime;**
4. **A government that is responsive to financial sector concerns;**
5. **A light regulatory touch; and**
6. **An attractive living environment.**



London scored well on regulation, tax and the quality of its talent pool, but poorly on government responsiveness and the living and working environment. New York was stronger than London in all areas except regulation, though on labour and tax it was a photo finish. The two Continental centres were weaker in all areas except the living and working environment, where Paris was rated best of the four.

Specific points about the City are:

Labour: The flexibility of labour practices and the depth of the talent pool are among its biggest pluses, but its advantages *vis-à-vis* New York are seen to be eroded by growing labour regulation, the EU's Social Chapter etc.

Regulation: London scores strongly, reflecting well on both the quality and the integrated structure of the Financial Services Authority. The City is more interested in the competence of its regulator than in the lightness of its touch. The steady rise in the regulatory burden is a major concern, though the City is seen to be in a better position than competing centres.

Tax: Relatively lower UK tax rates are considered a big advantage, particularly in areas such as private equity. But growing taxes are a worry, particularly among foreign banks and individuals who are being singled out for new fiscal measures.

Continued

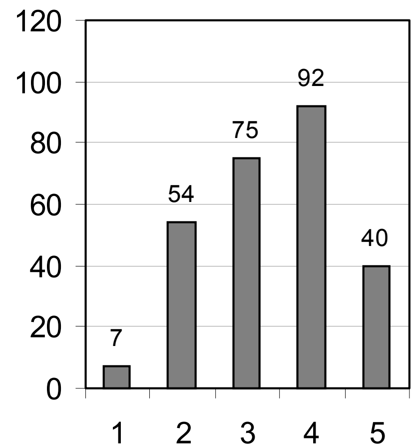
Sizing up the City

Responsive government: The UK scores badly. Two thirds of respondents think other governments do it better: eg US, France, Singapore, Germany, Ireland. Points of concern are City-bashing in Westminster, confusing signals from Whitehall, and a feeling that the UK is losing out to more wily governments in Brussels.

"Other governments help their financial sectors more than the UK does the City"

1=strongly disagree; 5=strongly agree

No of responses



As a place to live and work: London comes third, ahead only of Frankfurt. It scores badly on specific points - transport, housing, schools, medical facilities - but better on general atmosphere, openness and culture.

EU: The City's relationship with the eurozone is seen as important but not critical to its competitiveness. There is much evidence that the City has benefited from the new business generated by the euro, and little that it has lost any. But growing disenchantment with the EU's failure to deliver a single market in financial services is colouring people's view of the euro.

Physical presence: Being close to the markets is still very important to practitioners because it delivers contacts and business, and generates a creative atmosphere. London does well on openness and ease of access. For many banks, a presence in London confers a "badge" of international status.

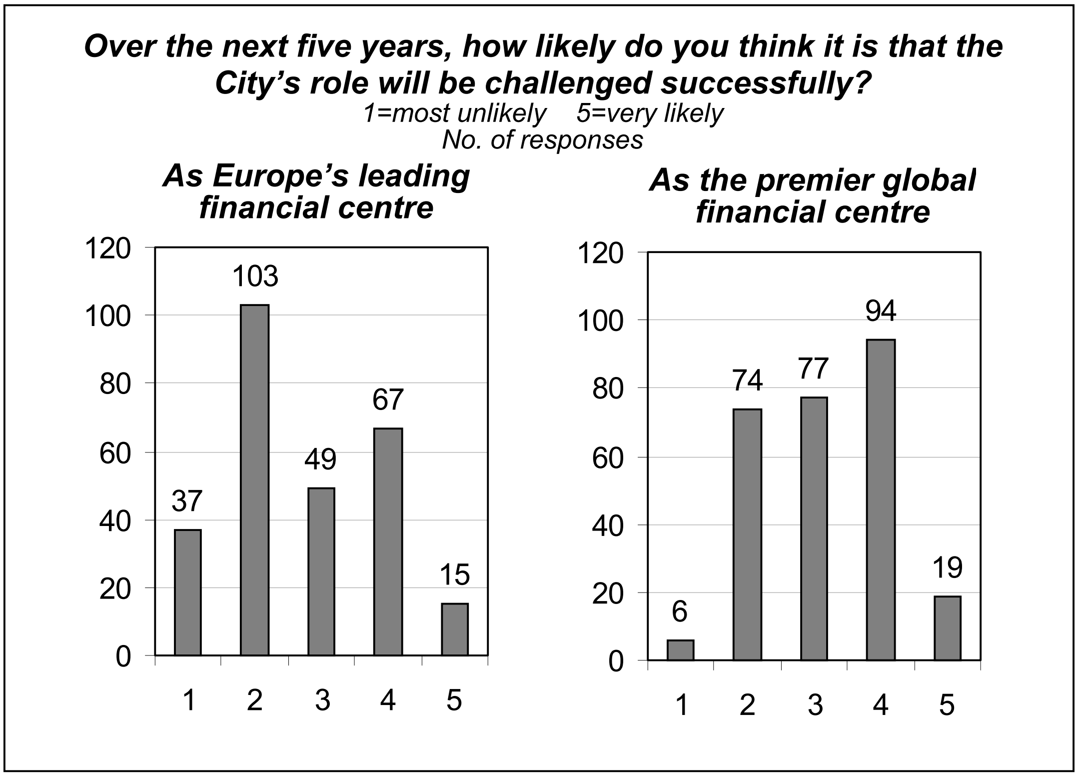
Innovation: This is a key to London's standing. The City feels that the success of a financial centre is best measured by its position at the leading edge of finance, and any moves that jeopardised London in that regard could be very damaging.

Relocation: Rising costs are a big worry for City institutions. These are forcing firms to relocate non-City-essential operations to regional centres in the UK and also to foreign parts such as Ireland and Asia. Much of this is back office, but it increasingly includes central functions like management and legal services.

Consolidation: Major banks are centralising their Europe-wide activities around their London base in a quest for greater efficiency: trading, research, corporate finance, risk management, compliance. This is made possible by technology and, ironically, the euro. The process has been accelerated by cost pressures resulting from the recent market downturn. The same is happening in services: legal, software etc. This structural shift is helping to strengthen London's lead over Continental centres. It also means that London could benefit disproportionately from the next upturn since banks will rebuild from an expanded London base.

The future: The City is expected to have the best regulatory environment in five years' time, though ill-judged regulatory/government actions, specially from Brussels, could jeopardise that position, particularly at the global level (see chart). If so, firms would most likely move to New York rather than the Continent.

Sizing up the City



London's overall competitive position is strong. It far outclasses Continental centres in all areas except the quality of the living and working environment, and there is evidence that this lead is increasing. Although London comes second to New York overall, the trans-Atlantic gap is narrow on many counts. The main swing factors between the two cities are regulation, where London does well, and government responsiveness, where it falls down. There is clearly a message for government here, particularly in light of concerns that London could lose ground in the years ahead because of the pressures of cost, weak infrastructure, and the rising tax and regulatory burdens.

London's greatest asset is the people who work there. To remain competitive, London will have to ensure that it provides a challenging and rewarding working environment which attracts the best talents. Any moves to reduce working flexibility would be very damaging, particularly *vis-à-vis* its main competitor: New York. A culture that encourages innovation is also key to London's ability to stay ahead of its rivals.

The City is changing. It is losing much of its back office because of cost pressures; but it is gaining front office as the centralisation of European financial markets around the City progresses. London is becoming an increasingly high-powered centre for decision-makers, deal-makers, fund managers, analysts and traders. This distillation will make a challenging mix for government and regulators, and increasingly differentiate London from the rest of Europe.

From the point of view of UK plc, the City is not so much in the financial services business as in the business of providing the best setting for financial service companies from all over the world. This places a huge importance on getting the tax, regulatory and living environment right, and trends in some of these areas are not going in the right direction.

Preface

Although this report is sponsored by the Corporation of London (for which we at the CSFI, as a charity, are very grateful), it is a completely independent piece of work. The Corporation was very helpful in reviewing the questionnaire and drafts of the report, and provided us with a useful sounding board for City opinion in the person of Tim Sweeney (latterly of the British Bankers Association). But the report is a CSFI report, and its conclusions are the responsibility of the author, David Lascelles, and the Centre itself. So, if you don't like what we have to say, get mad at us, not at the Corporation.

But is there anything to get mad about?

I fought (and lost) a not-entirely-frivolous battle to have the report sub-titled "*Plenty of room for complacency*" – partly because I have always wanted to write the phrase and partly because I (like David) was stunned by how far London is perceived to be ahead of its Continental European rivals. Neck-and-neck with New York was to be expected, but Paris and Frankfurt seem to be a good furlong behind – and may actually be going backwards, despite all the huffing and puffing a few years ago about *Paris Europlace* and *Finanzplatz Deutschland*.

Obviously, we shouldn't get carried away. After all:

- what we are measuring are *perceptions*, not some kind of objective reality; and
- this is only one snapshot, at a single point in time.

This is not to say that perceptions are unimportant, however. Indeed, executives make decisions on the basis of their perceptions – so perceptions are what matter. But, over time, one must assume that perceptions are affected by objective reality – and, if the objective reality is that the UK is over-regulated or hideously expensive, that will come through in the end.

As for the survey being a snapshot, true – but we very much hope that the CSFI (or others) will be able to repeat it on a regular basis, and also carry out broadly the same analysis in other centres. That way, we will have some longitudinal data on how perceptions of London change over time, and also horizontal data on how practitioners in other financial centres feel about their location.

If we – or somebody else – does it again, are there questions we missed?

Although we did do some pre-testing, the short answer is Yes. For example, it would have been nice to know more about our respondents – their nationality and their level of seniority. We should probably also have included questions on attitudes to crime (London is now widely felt to be more dangerous even than New York), on the split between the "City" (in the sense of the Square Mile) and Canary Wharf, on the importance of English as a working language, on the "buzz" of London (is it a generational thing?). We should also have made a clearer distinction between wholesale and retail; the City is primarily in the wholesale end of the business, while Paris and Frankfurt are more retail in their orientation.

But these are niggles. The main point is that the survey as it was carried out (274 detailed questionnaire responses and 76 in-depth interviews) produced some powerful, and not always intuitively obvious, results. I would highlight four:

- The power of the London "brand": I was surprised just how widely accepted the City's big league status is in finance. I draw a lesson from this: just as France would be unwilling to defer to British expertise in wine production or Germany on how to build an automobile, the UK should be more assertive about its position as "best of breed" in European finance.
- The high regard in which the FSA is held: It is a bit late in the day to be sucking up to Sir Howard Davies, but both David and I were impressed with the FSA's standing in the eyes of practitioners, despite all the moaning about cost. Maybe it has something to do with the low esteem in which some other regulators are held, but the FSA is clearly doing something right – and it also appears to be right in putting regulatory competence ahead of a light regulatory touch. The London "brand" has a lot to do with the perceived competence of UK regulators.
- London's dominant role in "subscription" markets: The term was new to us, but the distinction makes sense. Some markets are more cooperative than competitive; they depend on a team being assembled – for loan syndications, for Lloyd's etc. And that requires a combination of personal contact and trust – where the City (perhaps especially in the sense of the Square Mile) still has an edge.
- The "distillation" of financial services in London: What seems to be happening is that back-office and some middle-office activities are being moved to other (cheaper) centres, leaving the City with an increasingly high-octane blend of deal-makers, traders and market-movers.

The report also highlights longer-term vulnerabilities. They do not pose an imminent threat to London's position, but are well worth watching. The quality of life is one: as Roger Kubarych writes in an interesting aside, "if it is no longer appealing for non-British wealthy people to be in London, no amount of technology will keep them there". That means housing and transport – and a competitive tax regime. Cost is another; at the moment, perceived labour flexibility appears to offset the higher cost of labour in the UK – but creeping social legislation from Brussels may undermine that. And then, as David points out, some assiduous "bean-counter" may decide the cost and benefits of doing business in London are not quite as appealing as we all seem to think.

That brings up a plea: it is that the UK government explicitly understands that (in David's words) "the City is not in the financial services business, but in the business of providing a good working environment for institutions that are largely foreign-owned". In that sense, the City has a lot in common with Wimbledon – and both need to stay on their toes.

Finally, a few words of thanks. These must go first of all to the 350 people who provided input, either by filling in the questionnaire or giving interviews (sometimes both). David also got a great deal of help from Benedikt Koehler, whose Continental European perspective was crucial in guarding against the temptations of provincialism. Thanks, also, to our two interns, Denis Lapotko and Mark Pitcher, who did a lot of work on the statistical side. In addition, we got valuable help on questionnaire construction from Dr Denis Hilton, a social psychologist at the University of Toulouse, and Dr Lilach Nachum an associate professor of international business at Baruch College in New York. Many people were involved in this report, but my biggest thanks must go to the author, my colleague David Lascelles, whose knowledge of the City and understanding of how it works are unparalleled.

Andrew Hilton
Director, CSFI June 2003

Sizing up the City

Introduction

This report explores the perceptions held by a wide range of City practitioners and observers of London's competitiveness as a financial centre - which means that it is as much about their prejudices as about the bare facts. But perceptions have a powerful influence over where people choose to locate themselves and their businesses, and as such are strong determinants of the success or otherwise of a financial centre.

The report is based on a broad cross-section of City input: 274 responses to a questionnaire from, and 76 interviews with, banks, brokers, fund managers, insurers, technology suppliers, lawyers, accountants, consultants, trade associations and public officials. More than half of the institutions who provided input were under non-British ownership.

The report is in three sections:

- In the first, we establish what people perceive to be the most important attributes of a successful financial centre. We then rank four centres, London, New York, Frankfurt and Paris, according to these attributes, and produce an Index of Competitiveness. (Page 8)
- In the second, we explore the key themes in greater detail. (Page 12)
- In the third, we summarise our findings and conclusions. (Page 35)

A description of the methodology, the questionnaire results, a list of institutions we interviewed and statistical material are contained in the Appendices. (Page 36)

City perceptions

"I have always been a great fan of the City of London…It has all the ingredients necessary for a successful international centre in the time zone."
Australian banker

"We suffer from a government policy which is moving from benign neglect towards unthinking legislation - financial and regulatory".
City chairman

"While we may be less satisfied with the City than we were, the competition is still not very good."
Financial consultant

"Declining infrastructure and services, and rising crime contain 'the seeds of decline'. Once this sets in, the City's fall could happen quite fast."
Finance company director

"A key national asset which governments would do well to nourish."
Middle East banker

Section 1

What makes a financial centre?

First, we establish which attributes are currently considered to be the most important in financial centre success. The six attributes were distilled through interviews and then ranked in the survey.

How important do you think the following are in determining the competitiveness of a financial centre?
Avg score 1=unimportant 5=very important

1	**A pool of skilled labour**	4.29
2	**A competent regulator**	4.01
3	**A favourable personal/corporate tax regime**	3.88
4	**A responsive government**	3.84
5	**A light regulatory touch**	3.54
6	**An attractive living and working environment**	3.45

Our respondents thought that the **quality of skilled labour** is the leading attribute. In these days of virtual markets, the people make the centre.

The responses are more mixed on **regulation**. "A competent regulator" comes second, but "A light regulatory touch" comes fifth, confounding those who believe that light regulation is key to market success. In this enforcement-driven age, what the markets want is a regulator who understands markets, regulates appropriately, and provides a high level of regulatory certainty, even if this means sacrificing a light touch.

"I don't think a light regulatory touch is attractive. Capital is cheaper when investors believe regulation is sound."
Financial consultant

The importance of the **tax regime** is stressed. Many segments of the market - and individuals - are highly motivated by tax. This is also a key differentiator: financial centres can still compete strongly on the tax front, even within the EU's increasingly harmonised regime.

The level of **government responsiveness** comes lower down the scale. While government can provide a good political environment and - increasingly - fight the finance sector's battles in foreign fields like Brussels and Basel, there is also a strong view that governments should know when to hold back.

The quality of the **living and working environment** is the weakest attribute. What matters about a financial centre is whether it's good for business. Whether it's nice to live there is secondary.

Missing from this list are other frequently mentioned attributes such as **access to markets** and **quality of infrastructure**. We found that these are not seen to be important differentiators (though both of these, and others, are explored in Section 2). These days, credible institutions can access markets from any location in the world. Good market infrastructure is taken as given for any leading financial centre.

The centres compared

How do financial centres compare on these attributes?

A pool of skilled labour

Avg score 1=very bad 5=very good

1	**New York**	4.42
2	**London**	4.41
3	**Frankfurt**	2.97
4	**Paris**	2.83

New York's **labour market** is just a touch better than London's, though we found a distinction between the sheer volume of talent available on Wall Street and the wider set of international skills present in London. Frankfurt is seen as a "mini London", with a broad set of talents but on a smaller scale. Paris' talent pool is regarded as patchy, strong in some areas like equity derivatives, but weak in others.

A competent regulator

1	**London**	3.90
2	**New York**	3.75
3	**Frankfurt**	3.00
4	**Paris**	2.83

London comes in a length ahead of New York on the **competence of its regulator**, reflecting well on both the quality and the integrated structure of the Financial Services Authority. New York suffers from the hardening of regulation under Sarbanes-Oxley. Continental regulators are seen as over-prescriptive.

A favourable personal and corporate tax regime

1	**New York**	3.61
2	**London**	3.60
3	**Paris**	2.50
4	**Frankfurt**	2.44

Tax produced a close-run race between New York and London, though this is an area where London is seen to be slipping. The Continentals, with their reputation for heavy taxation, score less well than the Anglo-Saxon centres, with Frankfurt coming out lowest.

A responsive government

1	**New York**	3.91
2	**London**	3.25
3	**Paris**	3.01
4	**Frankfurt**	2.93

London cedes first place to New York on **government responsiveness** for several reasons: a perception that the UK government is anti-City, recent tax moves aimed at the City, and the feeling that the UK puts up a poor fight in Brussels. One of Paris' strengths is the perception that the French government is good at international negotiation.

A light regulatory touch

1	**London**	3.38
2	**New York**	3.01
3	**Frankfurt**	2.81
4	**Paris**	2.74

London is the clear leader in the **lightness of its regulatory touch**, though as we have seen, the markets are more interested in a regulator's competence than in the weight of its hand. Frankfurt and Paris both score badly because of the perceived lack of finesse in their regulatory systems.

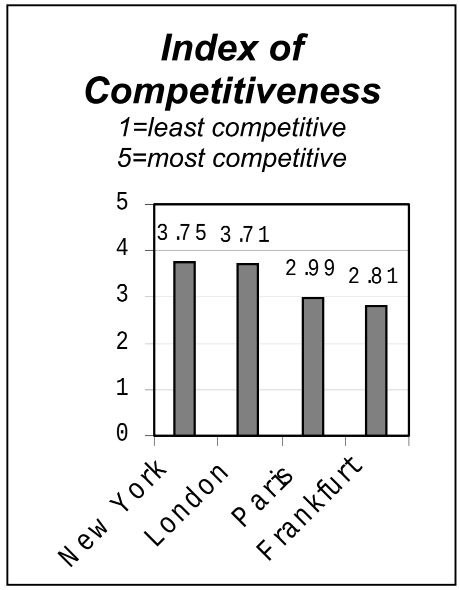
An attractive living and working environment

1	**Paris**	4.01
2	**New York**	3.62
3	**London**	3.58
4	**Frankfurt**	2.62

At last an attribute where the non-Anglo-Saxons come out on top. No surprises that Paris prevails on **living and working environment**, what with *ooh-la-la* and a good Metro system. Efficient transport does not salvage Frankfurt's grey reputation, however. London loses out to New York on several points: transport, housing and medical facilities.

How the centres rank

Our Index of Competitiveness sets the four financial centres against a single yardstick to measure their relative position. To create this Index, we took the scores given by our respondents to each centre on each of the six key attributes and weighted them according to the importance attached to each attribute.



The Index shows that New York just outdoes London in competitiveness. This is because it scores better on the availability of skills, the responsiveness of government, and the living environment. Although London scores higher on regulatory criteria, its best ranking - the lightness of its regulatory touch - comes lower in people's priorities. In general, issues such as labour, tax and living environment were too close to call between London and New York, showing that the greatest swing factors are regulation and the responsiveness of government.

Paris outdoes Frankfurt on tax, government responsiveness and - very strongly - on living environment. Frankfurt's strongest showings are on labour skills and regulation.

The Index shows clearly that financial centres fall into two classes: the "Anglo-Saxon"[1] and the Continental. Within those classes there is not much to choose.

[1] Although not strictly accurate, the term Anglo-Saxon is widely used in the finance sector to describe the US/British financial model, i.e. London and New York.

The City: the dollar yields to the euro
by Geoffrey Bell

At one level, it is remarkable that the City of London should be the world's second financial centre - not far behind New York. This position certainly does not reflect economic or financial fundamentals seeing that the US economy is more than seven times larger than the UK's, and that the dollar dominates the world's currencies. Moreover, the US' lead widened in the 1990s as it drove world growth and became a magnet for foreign investment and acquisitions. Yet, London remained a major player, well ahead of Paris, Frankfurt and Tokyo. One reason was the spectacular growth of US institutions in the City such as Citibank, JP Morgan, Morgan Stanley and Goldman Sachs. But there is more to the story.

Historically, London was quick to develop the eurodollar market in the 1960s and 1970s, taking advantage of the US' failure to abolish restrictions on interest rates. Once the US woke up to the importance of this market, it was too late: London already dominated the business thanks to the skills acquired over the previous century when sterling was the world's premier currency.

Since the 1970s, the abolition of exchange controls in most countries has favoured banks that can tap markets around the world. This is where large US institutions not only have the advantage but, in the "dollar decade" of the 1990s, were able to establish themselves as *the* players in international finance. Yet they all needed a European base and London was the preferred choice, mainly because it had the skills and was a great place to live.

Today, the question is whether, post-US bubble, London has a chance to grow more rapidly than New York for a few years - as in the halcyon days of the 1970s. The dollar has fallen almost 30 per cent against the euro, and may have to fall further to bring the US current account deficit down to manageable proportions. But, as more and more currencies (especially in China and the Far East) are pegged or closely aligned to the dollar, the burden of adjustment falls largely on the euro and yen.

This is important because a fall of this magnitude should ensure that transatlantic mergers and acquisitions - and therefore investment flows - remain at a low level for several years. By contrast, a strong euro could force a major restructuring of companies in Europe, providing a great business opportunity for London-based banks. It is interesting that US bankers are currently urging international borrowers to consider euro bond issues because investors are beginning to like the currency and want more paper. Also, as the euro grows as an international reserve asset, banking business will tend to follow just as it did the dollar - to the benefit of London.

It is probably easy to exaggerate the impact of a declining dollar - and there is little doubt that the US will remain the leading economic and financial power in the world. But there is a good chance that the US currency will not be so dominant for a while - which will give London the ability to play a bigger role in the world's capital markets again, even if it is the US banks based in London that lead the way.

Geoffrey Bell is a former UK Treasury official and investment banker at Schroders. He now runs his own investment bank boutique on Wall Street.

Section 2

Themes

In this section we explore key themes in more detail, and extract the London angle.

1. How should we measure success?

First, we felt it important to determine what people meant when they talked about the success or otherwise of the City: was it the volume of business, the number of people, the type of people, cosmopolitanism, innovation etc.?

What criteria should we use to assess the competitive success of the City?
Avg score 1=unimportant; 5=very important

1	**Leading edge in finance**	4.40
2	**Percentage share of market**	4.35
3	**Contribution to GDP**	4.02
4	**Locus of key decision-making**	3.91
5	**"Bums on seats"**	3.30
6	**Nationality of senior staff**	2.30

A position at the forefront of finance scores best, closely followed by size of market share. The number of jobs generated is considered less important, though there is a clear implication in the ranking of points 2 and 3 that the quality of employment should add a high measure of value.

The London angle

These findings favour London with its strong reputation for **financial innovation** and **large share of key markets**, and the **sizeable contribution to GDP** made by its financial sector. On the other points, the City is the **locus of business decision-making** (i.e. deals and trading), though not necessarily of business strategy since so many of its institutions are headquartered elsewhere. The lower position given to "**bums on seats**" reflects the belief that the City's labour force should be measured by quality rather than numbers.

> *"The key point is not competitiveness, since this implies that financial services are a zero sum game, but effectiveness because this could lead to overall improvements in the financial sector."*
> **Central banker**

The low importance attached to the **nationality of senior staff** accords with the City's strong cosmopolitan character. Although some people we spoke to were worried that the dominance of foreign ownership made the City vulnerable to external pressures and whims, this did not seem to be the prevailing view. Many made the point that one of London's advantages was that its fortunes did not depend on the local economy or the strength of domestic financial institutions - something that has hit Frankfurt and Tokyo, and even Wall Street. Generally, the "abolition of nationality" was seen to be a positive differentiator between the City and more locally focused centres on the Continent.

2. Labour and skills

The table tells us how aspects of the labour market are ranked.

When assessing the labour situation in a financial centre, which is most important? *Avg score 1=less important 5=very important*		
1	**Flexibility of labour legislation**	4.25
2	**Size of skilled labour pool**	4.23
3	**Total cost of labour**	3.98
4	**Availability of ancillary services**	3.77

Labour flexibility is highly prized: it simplifies the task of management, and it makes it easier to hire and fire - very important in an industry as volatile as international finance. The ranking of points 2 and 3 suggests that the industry is more interested in the quality of available talent than in its cost - particularly if the cost can be swiftly reduced in a downturn. The availability of ancillary services (legal, accountancy, technology, consultancy etc.), though less important, is nonetheless essential to a successful financial centre.

The centres compared

Flexibility of labour legislation *Avg score 1=very bad 5=very good*		
1	**New York**	4.41
2	**London**	3.96
3	**Frankfurt**	2.20
4	**Paris**	2.12

New York is considered to have the most **flexible labour market**. Although London's reputation is strong in this area, creeping regulation, EU directives etc. are all seen as dulling its competitive edge. Paris and Frankfurt trail badly, giving London a strong lead in the time zone.

Size of skilled labour pool		
1	**New York**	4.65
2	**London**	4.57
3	**Paris**	2.89
4	**Frankfurt**	2.88

New York outdoes London on the **size of its labour pool**, though our interviews showed that London is still considered best on the breadth and diversity of available talent. There was little to choose between the Continental centres because so much of their talent is drawn to London.

Total cost of skilled labour		
1	**New York**	3.48
2	**London**	3.39
3	**Frankfurt**	3.08
4	**Paris**	3.00

The key word here is "total". Despite London's high salaries, it does better than ostensibly cheaper Continental centres on **labour costs** once "social" costs are added in, and provision is made for possible redundancy pay-outs. But New York is seen as having the best labour value.

Ancillary services		
1	**New York**	4.70
2	**London**	4.64
3	**Frankfurt**	3.14
4	**Paris**	3.10

Although London prides itself on the **strength of its professional services**, it is not perceived to be as good as New York. Nonetheless, this is another area which underlines the major differences between the Anglo-Saxon centres and the Continental.

The London angle

The City's labour quality is measured in several ways.

1. Size of the talent pool: Virtually every skill required by international finance and its support services can be found in London. The fact that these skills can be had in people from many different nationalities and cultural backgrounds is an added plus. Many senior bankers described the pool as "exceptional". Ambitious and capable people tend to gravitate to London to gain work experience and advance their careers.

> *"We have taken a conscious decision not to put more people in Paris than we absolutely need…But it's also harder to take jobs out of Paris, so we focus cuts on markets where we can shed jobs, like London."*
> **Middle East banker**
>
> *"You could set up a cheaper trading operation in Frankfurt, but you'd probably have to staff it with people from London on expat packages."*
> **Head of human resources**
> **International bank**

2. The strength of the work ethic: We found the City workforce attracting adjectives not often associated with UK labour: exceptionally committed and hard-working, ambitious, flexible, keen to learn, cosmopolitan etc., though Anglophone employees were criticised by some respondents for their poor language ability.

3. Labour flexibility: The relative freedom to hire and fire holds one of the City's greatest appeals, particularly for US banks, but also for Continental firms seeking to escape labour market constraints back home. Many of the banks we spoke to had adopted a policy of minimal hiring in Continental centres to avoid the social costs and the job protection regulations. We were given many estimates of the cost of laying people off on the Continent compared to London: these ranged from 2.5 times to as much as eight times. One bank told us it had budgeted £4m to shed 25 mid-rank staff in Paris versus £600,000 for 18 people in London, a ratio of nearly 5:1. And where the process took 15 months in Paris, it was completed in a matter of weeks in London.

<u>London's flexible labour practices are, however, seen to be under threat.</u> The UK's adoption of the EU's Social Chapter and the steady flow of labour market regulation are making themselves felt. This is unlikely to drive jobs out of London so long as Continental markets remain even less attractive. But it could lead US banks to take more jobs back home, and generally dampen down employment growth.

> *"If you want a Greek quant, you'd look in London, not Athens."*
> **Continental banker**
>
> *"You can build intellectual capital very easily in London, as you can in New York. Indeed, London has largely caught up with New York in this respect."*
> **Head of retail market risk**
> **UK clearing bank**
>
> *"The main problem is the lack of committed staff who are prepared to do more. I think the labour forces in European centres are too spoilt, caring more about their personal lives. Labour laws overprotect them."*
> **London manager**
> **Far East bank**

<u>High salaries are also a problem.</u> Pay is widely seen to have got out of hand in the 1990s, though the recession is correcting that. Many banks said they were using the downturn to introduce tougher pay conditions, but admitted they might not be able to hold the line once competition for talent starts to hot up again. But this may not be as big a negative as people think. Several banks said that although London salaries are higher, overall labour costs are little different from Continental centres once social costs are thrown in.

3. Regulation

The quality of regulation has a strong influence on perceptions. When asked to compare the different regulatory environments in the four financial centres, respondents put London at the top of the list by a big margin. New York suffered from the perception of an increasingly inhospitable system, and the Continental centres from a reputation for inflexibility.

How do the regulatory environments of the major financial centres compare?
Avg score 1=less 5=very attractive

1	**London**	4.18
2	**New York**	3.84
3	**Frankfurt**	2.98
4	**Paris**	2.96

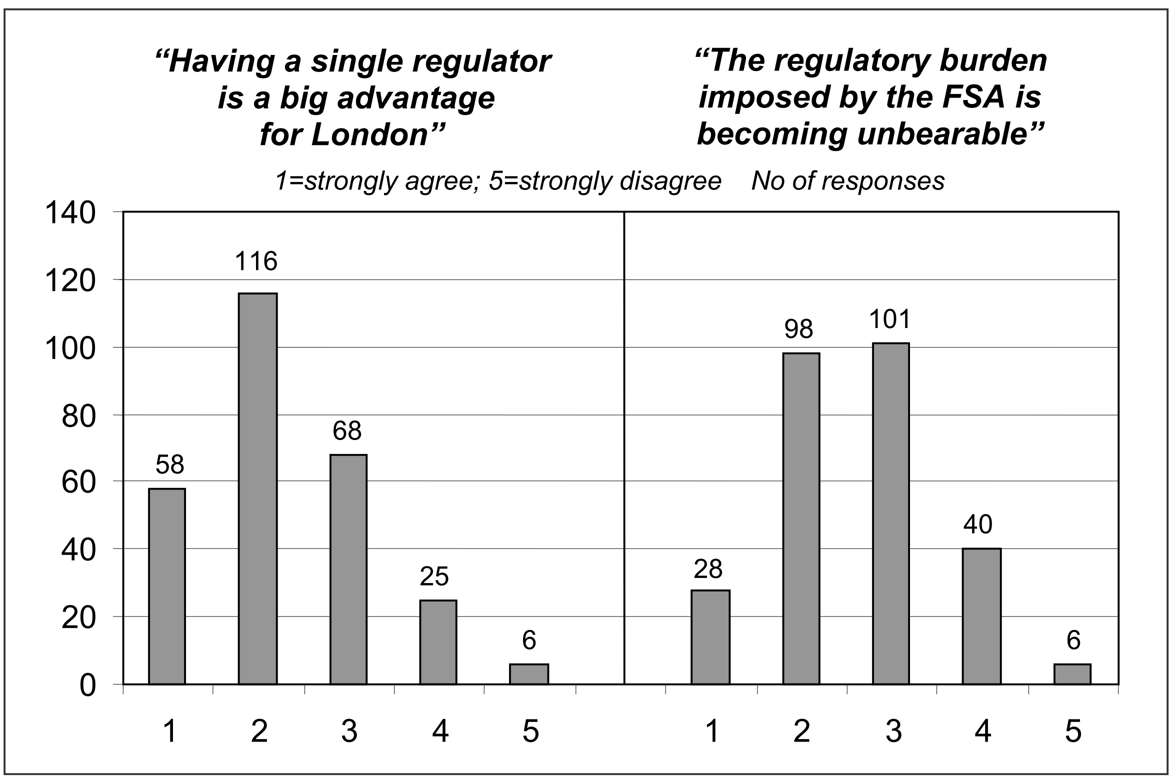
London also did well going forward: it was expected to have the most positive regulatory environment in five years' time, from the point of view of running a financial services business. In general, the ranking here showed that people expect little change in the relative position of all four centres, with the Anglo-Saxons holding their lead.

Who will have the most positive regulatory environment in five years' time?
No. of responses

1	**London**	148
2	**New York**	97
3	**Paris**	20
4	**Frankfurt**	17

The London angle

London's strong showing on the regulatory front reflects a positive view both of the FSA's competence as a regulator, and the value of having an integrated regulatory structure. (See chart). Interviews threw up widespread agreement on the pluses of London's regulatory regime. People



considered it to be reasonably sophisticated and transparent; they found the regulator accessible, and liked "the quality of the dialogue". One bank commented: "There is greater freedom here, openness to criticism." We also found that London's regulatory reputation is a business attractor. Several banks have incorporated in London specifically to gain the London "brand", and one US investment bank we spoke to keeps open the option of switching its HQ to London in order to have the FSA as its "lead regulator".

Too much paper, or too little?

Although City institutions complain about the avalanche of consultation papers from the FSA, they would, on balance, prefer to have more rather than less dialogue with their regulator. One example was the EU's directive on electronic money. The FSA ran an 18-month consultation on this important piece of legislation. In The Netherlands, the consultation period was only 10 days.

We even found instances where the FSA's decision not to regulate particular segments of the market had driven that business away in search of a regulator elsewhere, for example institutional money market funds and hedge funds. This seems to confirm the view that a sound regulatory environment bestows reputation advantages on institutions that operate within it.

<u>But there was also a darker side.</u> We found growing disquiet over the mounting regulatory burden in the City: the intrusiveness, the cost (see chart on p.15). Our interviews showed frustration over the rise of regulatory interference, burgeoning paperwork, and the apparent mindlessness of much of the regulatory process. Specific concerns focus on an over-cautious attitude at the FSA, and what is seen as the ascendancy of the consumer protection lobby. Part of the discontent also reflects the view that the UK's advantages in the regulatory area are being eroded by EU-driven convergence - with more to come. "We shouldn't forget that we have already signed up for many of these measures" was one comment. Part stems, too, from concern about "an overzealous implementation" by the UK authorities (not just the FSA but the Treasury and the Inland Revenue) of Brussels directives: the "gold-plating" phenomenon, though this may also result from the certainty required by the English legal system.

However, things are clearly perceived to be worse elsewhere. "There is not less regulation here, only better", said a US investment banker. Virtually all other regulatory regimes apart from the US are seen to be essentially driven by consumer protection, and therefore less sophisticated and less hospitable to City-style wholesale markets and institutions.

London's main competition in wholesale market regulation (i.e. corporate finance, capital and equity markets, fund management etc.) is quite clearly New York, the only other centre which is perceived to have the regulatory capability and sophistication to handle it. However specialist centres have made marked inroads into areas such as insurance (Bermuda), fund management (Dublin), and personal wealth management (Geneva, Channel Islands and Gibraltar).

"Regulation makes our clients feel comfortable."
Hedge fund manager

"Laisser-faire is not necessarily the best policy now because of the globalisation of finance. However, excessively severe regulations will kill the market. Minimal, loose but comprehensive regulation would be ideal."
Japanese banker

"Regulation can be an attractor, but it's a matter of balance."
Investment banker

4. Tax

Tax is an important differentiator. We found that all centres have "tax reputations" which strongly colour people's perceptions of them, and therefore their location decisions. These reputations are quite hard to shift, which is a severe handicap for centres labelled as "high tax". By the same token, London probably enjoys a stronger reputation for "low tax" than it really deserves, given all the new taxes that have been introduced in recent years, and the persistence of stamp duty.

Generally, the Anglo-Saxon centres score better than the Continentals in this area. But tax differentiation within the EU continues to be strong despite pressure for harmonisation, and it certainly offers more scope for variety than the regulatory arena where EU convergence is more advanced. Tax also allows niche centres to attract segments of the market, which a number of them have been quite successful at: eg Dublin, as already mentioned.

The London angle

London was close second to New York on the quality of its personal and corporate tax regime. People believed that the UK had generally lower levels of tax and a more flexible tax regime than its Continental competitors. The Treasury's apparent success in heading off a threatened EU withholding tax reinforced this view. The City also has one of the most attractive tax regimes for Venture Capital, which keeps a large VC community in the UK.

The tax regime itself is viewed as fairly flexible. One recently merged Continental bank we spoke to said that the UK tax authorities had been much more constructive about the tax implications than their own authorities back home.

But we also found that the City's tax appeal is losing some of its shine. The introduction of a **new tax on foreign bank branches** in the 2002 Budget was badly received in the foreign banking community. Even though most banks will pay no more tax than before (but pay it in the UK rather than back home), we encountered widespread dismay at the lack of consultation, and the abruptness of the move. The change will almost certainly force banks to book business outside the UK, and banks from countries without double taxation agreements with the UK (eg South Africa) will end up paying more tax.

> *"The new tax on foreign branches is intolerable."*
> **Japanese banker**
>
> *"The City's competitiveness will be dented by potential taxation on overseas residents and branches of foreign banks."*
> **General manager**
> **European bank**

Stamp duty on share transactions remains a big bugbear. It is seen as affecting market liquidity by raising transaction costs, and it is becoming self-defeating to the extent that it is driving share trading into the untaxed derivative markets, eg contracts for differences, stock futures, American Depositary Receipts. One major fund manager we spoke to said that 20 per cent of its UK equity holdings were now in ADR form. Stamp duty would become a bigger handicap if the UK joined the euro because it would make UK shares more expensive to trade in an otherwise increasingly undifferentiated market.

Proposed changes to the personal tax regime to tax the foreign earnings of non-domiciled residents are also causing concern in some quarters, eg shipping.

The view from New York
by Roger M. Kubarych

People in New York think that New York is the world's most important financial centre. People in London probably think London is. Nobody thinks Paris or Frankfurt or Zurich or Geneva is, not to mention Hong Kong or Tokyo or Singapore or Boston, not even those cities' most loyal boosters. These perceptions are not entirely subjective. But nor are they purely based on business numbers. They reflect what Joe Nye, Dean of Harvard's Kennedy School, said of geopolitics: "soft power".

How much "soft power" does London have relative to New York and aspiring competitors? And how will London's traditional advantages hold up against the fast changing landscape: securitisation, popular investing, derivatives, burgeoning M&A, hedge funds?

Pretty well, I would guess. New York is strong in all of these, but London is next best. The key is the subtle mix of people and technology necessary for successful financial engineering, trading, and selling – all essential competencies in an ever more securitized and complex system.

London can and will continue to attract the talent because it is a great place to live and work, despite the lousy traffic and deteriorating Underground system. It even has powerful advantages in wealth management because it remains an attractive place for rich folk to congregate. Culture, nightlife, parks, architecture and celebrities interact nicely. So London gets high marks for "soft power".

Technology leadership is still a US comparative advantage, but the UK is not far behind (neither is Asia, but technology cannot overcome well-known shortcomings in the legal, regulatory and lifestyle areas). By contrast, Continental financial institutions generally lag, in large part because regulators still live in a dream world where their national champions will become big enough to compete with the Goldmans, Citigroups and HSBCs of the world.

What could bring London down? A housing market collapse that caused grave economic and financial problems which the UK authorities could not easily handle. An associated erosion in the quality of life, as short-sighted politicians starve mass transit, education and police. And any outbreak of intolerance toward people from non-Anglo-Saxon parts of the world. If it is no longer appealing for non-British wealthy people to be in London, no amount of technology will keep them there. And as they leave, the bright managers, financial engineers, researchers, and sales forces will follow.

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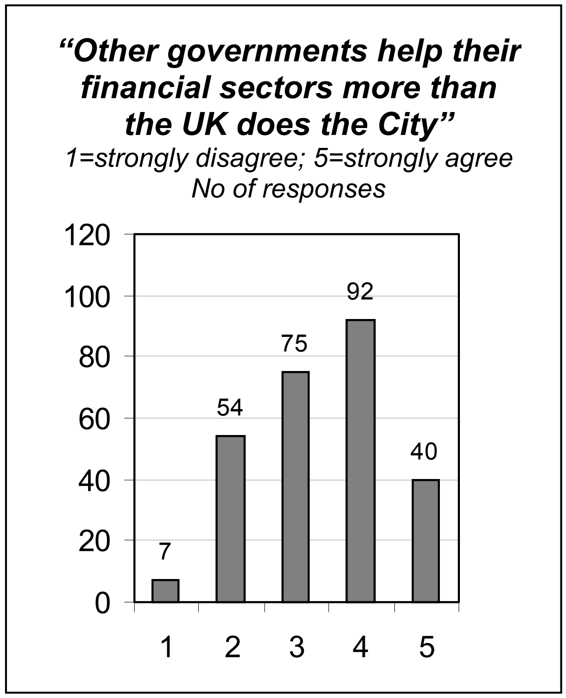
5. Government responsiveness

The City does not feel, on balance, that the UK government does enough to advance its interests. There was a strong tendency among our respondents to agree with the statement: "Other governments help their financial services sectors more than the UK does the City."

When asked which governments, the ranking was as follows:

1 US
2 France
3 Singapore
4= Germany
Ireland



This response does not square with the earlier result (see p. 9) which gave London a higher score on government responsiveness than Paris and Frankfurt. And, to be fair on the UK government, people always tend to have a "grass is greener" attitude on this subject. But our interviews confirmed the existence of widespread dissatisfaction with the present government over City matters. There seemed to be three broad reasons for this.

1. A perceived anti-City bias. There is a sense that government action is slanted towards consumer protection rather than encouraging competition and the growth of wholesale markets. Variations on this theme include views that government "takes the City for granted" or sees it as "the golden goose".

2. A feeling that the UK government could be more adept in its dealings with Brussels. Several people cited instances where they felt the UK had made concessions or compromises at the EU level which disadvantaged the UK, or allowed EU countries to avoid implementing single market measures. "There's no one fighting for UK plc…"

3. Role of the Treasury. Unlike other Whitehall departments which "sponsor" sectors of industry, the Treasury does not see itself specifically representing City interests. This has an impact on the City's dialogue with officials. People said that they were not always sure what hat Treasury officials were wearing: regulatory, macro-economic, tax..., and this made them feel that the Treasury's focus on an issue was not undivided.

Several people made the point that there was now a gap in the relationship between government and the City which had previously been filled by the Bank of England in its unofficial role as City "steward". Since giving up its supervisory responsibilities, the Bank seems less keen to get involved, or at least only behind the scenes. Many of our respondents were pondering whether this gap needed to be filled, and if so, by whom?

Among the reasons given us why other governments did better were that:

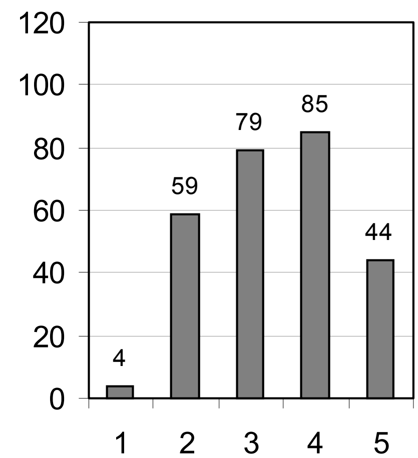
- promotion of the financial sector stood higher up their political agendas,
- they were more aggressive or more adept at advancing their financial sectors' interests in international fora, and
- they were more calculating about the concessions they made at the international level, for example in the EU.

Another reason was that they sought to interfere less with the business of their financial sectors, though this could probably only be said of the US government. This was borne out by the generally positive response we got to the statement: "The best thing the government could do for the City is leave it alone."

"The best thing the government could do for the City is leave it alone"

1=strongly disagree; 5=strongly agree

No of responses



However, from another angle, we found that the UK is thought to provide a generally more hospitable environment for finance than Continental countries. Many Europeans remarked to us that the City's huge deals and high salaries would not be tolerated back home. Although the UK press attacks City fat cats, the fact that many of them end up losing their jobs creates a sense of justice that is not present in other countries.

"The one thing the Brits do well is financial services, yet the government doesn't do a thing about it. We'd be all over it."
US investment banker

"The UK government has no idea how the City works. Its desire to legislate (via labour regulation, anti-discrimination laws, financial regulation, tax) has almost universally negative effects. It could kill the golden goose."
Financial services company executive

"The City is best left without government interference but with the government's sympathetic ear for business, and with a light regulatory regime. "
German banker

"This government must try to reverse the enormous damage it has done to the savings industry and stop treating the financial services industry as a whipping boy."
Stockbroker

City profiles

Deutsche Bank

In the rivalry between financial centres, few banks have acquired quite the symbolic importance of Deutsche Bank. Rumours of an imminent HQ transfer from Frankfurt to London swirl persistently through the markets, only to be equally persistently denied by Deutsche.

In many ways, Deutsche has ceased to be a German bank. More than half its revenues, employees and shareholders are now outside Germany, following major acquisitions such as Morgan Grenfell and Bankers Trust. Its fastest growing markets are corporate and investment banking in Europe and North America.

The corporate structure now reflects this. Of Deutsche's seven business heads, only one is in Germany - global retail. Four of them are in London: global markets, private wealth management, global lending and corporate finance, and two are in New York: asset management and global equities. Of its 77,000 staff, more than half are outside Germany.

As the base for its international operations, London - where it has 7,400 people - lies very much at the forefront of Deutsche's investment banking ambitions, and this is likely to grow so long as the City retains its pre-eminence in wholesale markets, though it is unlikely that the bank would ever quit its Frankfurt seat.

Fidelity

Fidelity, the world's largest independent fund management organisation, centres its European operations on the UK, where it has about 2,000 people, compared to 100 in Germany, 70 in Luxembourg and 50 in France, a distribution which reflects cost and market considerations.

The heart of Fidelity's European business is its City office where it has 72 fund managers and analysts, about half of whom are British, the remainder from 16 different nationalities. The City office provides a key link with the European markets and companies in which Fidelity invests: some 15-20 companies from all over Europe come in each day to make presentations. Other corporate functions, including top management and back office, are located some 30 miles outside London in Tonbridge and Reigate.

Stora Enso

Stora Enso, the large Nordic forest products company, maintains its top management in London. Its 25-strong treasury operation, originally sited in Brussels, is being re-located to London to bring it closer to the banking and investment communities, and to centralise risk management.

The company says that the new arrangement will make it easier to handle relations with institutional shareholders and with the 21-strong bank consortium through which it raises credit.

6. The living and working environment

The quality of public transport dominated people's view of what made a good living and working environment, not surprisingly given the City's current obsession with the subject.

How important do you think the following are in creating an overall living and working environment?
Avg score 1=less important 5=very important

1	**Public transport**	4.40
2	**Housing**	4.12
3	**Education facilities**	3.89
4	**Medical facilities**	3.62

Transport is London's Achilles heel, no question. The poor state of public transport is imposing huge costs on the City and creating a deep sense of frustration. People are angry not merely about tubes that break down and buses that never come, but about the government's seeming inability to do anything about it. You would expect the Continentals to show a superior attitude in this area. But even the Americans wax indignant. "When Giuliani took over in New York, he said we're gonna fix the subway, and he fixed it! Here it's, as the Texans say, all hat and no cattle."

How do you think financial centres rate on public transport?
Avg score 1=very bad 5=very good

1.	**Paris**	3.95
2.	**Frankfurt**	3.89
3.	**New York**	3.26
4.	**London**	2.01

Poor transport is influencing City planning. Operations have been moved closer to more reliable access points, international meetings are now held at Schiphol or Charles de Gaulle rather than Heathrow or the City, and the prospect of transport nightmare is affecting people's decisions to accept a transfer to London.

"In Frankfurt, the stress ends when you leave the office. Here, that's when it starts."
German banker

"Transport is going to be the main issue: it continues to deteriorate and there is little confidence that it will improve."
Managing director
London branch
Middle East bank

The only chink of light in an otherwise very dark picture is the fact that the City is still a place where people walk a lot. We were often told: "The great thing about the City is that you can stroll round the corner to meet your clients." Within the City itself, traffic controls have increased movement and made the streets more pleasant to walk in. The congestion charge also seems to be helping.

Schooling was the only area where London got a high(ish) score, probably because many City folk can afford to send their children to the more expensive schools. However we did hear complaints about the lack of good non-fee-paying schools in the SW postal districts.

Education facilities

1	**Paris**	3.68
2	**London**	3.52
3	**Frankfurt**	3.50
4	**New York**	3.39

Sizing up the City

Housing		
1	**Paris**	3.79
2	**Frankfurt**	3.66
3	**New York**	3.27
4	**London**	3.15

The high cost of **housing** dragged London down, also the difficulty of finding good accommodation within acceptable reach of an inadequate transport system. Generous housing allowances are key to any expatriate package.

Medical facilities		
1	**Paris**	4.05
2	**Frankfurt**	3.91
3	**New York**	3.74
4	**London**	3.10

London's poor showing on **medical facilities** was a bit of a surprise given the availability of private medical care to the expatriate community. But perhaps more of them rely on GPs and state hospitals than is generally supposed.

Although London makes a poor showing in the survey responses, this negative view was not always borne out by the interviews we held. The great majority of people we spoke to said they liked living and working in London: they enjoyed the atmosphere, the culture, the English language, the openness and accessibility. In fact, most things except transport.

We did however encounter a minority who didn't enjoy it for reasons mainly of cost and culture, and a number who chose to commute weekly from their Continental homes rather than bring their families over. We were also told of the difficulty some firms had getting expatriates to live in London, particularly the French, though London is also developing a reputation for crime which is said to be putting people off.

Terrorism. This issue did not loom large. In fact only a handful of people raised it unprompted. Although London is seen to be vulnerable, firms have taken heavy precautions against attack, and people have become to some extent inured after years of IRA bombings. The rise in petty crime, burglary, and mugging was a much stronger concern on the security front.

7. Market efficiency

We asked respondents for their opinion of market efficiency in the four centres, using two criteria, breadth and depth of markets, and cost and efficiency of clearing and settlement.

On **breadth and depth**, there was a tight race between London and New York, with the Continental centres far behind. This may seem surprising given the breadth, at least, of London's markets compared to New York's, and their wider international dimension. But there may be something about the sheer size of the US bond and equity markets that gives New York the edge.

How do you rate financial centres on breadth and depth of markets?
Avg score 1=very bad 5=very good

1	**New York**	4.65
2	**London**	4.63
3	**Frankfurt**	2.84
4	**Paris**	2.56

If London has a strength in this area, it is that its time zone allows dealers to access a wide range of markets not physically located in the Square Mile, the Continental securities and derivatives markets, as well as Far East and US markets insofar as the working days overlap. We found that many investment banks have centralised their securities trading operations in London to the point where the location in which they actually execute a trade has become a minor detail.

In **clearing and settlement**, New York emerges as the leader in a more evenly distributed field. London was held back by the widespread perception that C&S, not just in London, but the whole of Europe is fragmented and inefficient. Any move to reduce the cost of European cross-border C&S will therefore be to London's advantage.

Cost and efficiency of clearing and settlement

1	**New York**	4.49
2	**London**	4.00
3	**Frankfurt**	3.37
4	**Paris**	3.00

Some people were concerned that London could be disadvantaged by the fact that the two key players in this area, Clearstream and Euroclear, are, respectively, German and French-controlled and in a position to influence the flow of business. However, it seems more likely that both organisations will want to secure as large a share of the City's business as possible, and that rationalisation of their operations will help London. "The competition is not between London, Paris and Frankfurt, but between service providers. They will go where the action is," said a respondent.

Telecommunication costs are not seen as a problem within the City, but long distance and international calls were described as high by some institutions. One investment bank complained about the quality of the **electricity supply**: it had had to rely on back-up on several occasions because of power failures.

8. Cost

The high cost of doing business in the City is one of its big negatives. Almost all of the firms we spoke to were trying to save money by shedding staff, locating more operations outside the City, and squeezing budgets. For many smaller institutions, cost had become the top business issue, forcing them to confront difficult decisions about the scale of their London presence.

> *"If you quit London, you would have to abandon your commitment to being an international bank."*
> **South African banker**
>
> *"We have a duty to our shareholders to regularly review the optimum location for all our businesses."*
> **Chief executive**
> **International bank**

But while cost is forcing firms to scale back their London presence, it has yet to provoke any great exodus. When asked why they did not leave London altogether, their answers implied that they saw an even greater cost in not being in London: loss of credibility among peers, of prestige with clients, of access to information flows, of self-esteem - much of it unquantifiable. This is particularly the case with smaller banks which tend to see London - more so than New York - as the key to their international presence.

The inability - or reluctance - of firms to weigh this element of cost benefits the City because it means that the true cost/benefit of a London presence is not being addressed. But if a layer of irrationality underlies the foreign presence in London, this is not necessarily a cause for satisfaction. One day, some hard-nosed bean counter in a distant HQ might scrutinise the numbers and find them tilted against the City.

9. Moving out of the City

Relocating at least some operations out of London to cheaper centres is now high on every firm's cost-saving agenda. Most people we talked to had either done it or were looking into it. Popular destinations included Dublin for back office, India for IT operations, as well as towns and cities in the UK, such as Glasgow and Bournemouth.

We found the threshold up to which firms are considering relocation is also rising. It is not merely back office and clerical operations, but legal services and even top management. Some businesses are also relocating for particular reasons: venture capital, private equity and hedge funds tend now to be in the West End, where life is more congenial and where contact with wealthy clients can more easily be made. The venture capital industry is also spreading up towards Cambridge to tap into its technology-driven deal flow. <u>This trend is steadily distilling the remaining City community into a more concentrated mix of key line managers, business-getters and practitioners.</u> However we did encounter variations on the theme. Some smaller banks are centralising their back operations around their London base. Several people also commented on the desirability of keeping IT close by for convenience and morale reasons.

A consultancy which watches back office costs said: "Overall, London is expensive in terms of staff costs but high on efficiency. While moving processing to a cheaper location will reduce headcount costs, other factors may prevent real cash savings, such as lower skills and productivity."[2]

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[2] See Appendix 3 for details

10. Moving into the City

The recent downturn in the markets has caused a big shake-out in the financial sector which is hurting London because of its highly exposed position, and the relative ease with which jobs can be shed there.

<u>But we found little evidence to support the conventional view that London is specially vulnerable because so many of its institutions are foreign-owned.</u> This view holds that firms will retreat to their home base when times are hard, and sacrifice foreign outposts like London. However most firms told us that the cutbacks they were making in the City were because the operations affected by the downturn happened to be located there - not because they were heading home.

> *"Having a Continental presence makes sense, but it is not a clear MUST."*
> **German economist**
>
> *"If you can't do it in London, you probably can't do it anywhere else."*
> **US investment banker**

<u>In fact, we found plenty of evidence to support an opposite view: that London is actually benefiting from the downturn.</u> This is because many international firms, particularly the large US investment banks, are using cost pressures to accelerate the centralisation of their European operations round their London bases. Several such banks told us that they were paring back their Continental presence and bringing people and operations back to the City. These include trading, research, corporate finance, fund management, risk management and compliance - all of which benefit from being centrally managed. In some cases, this centralisation into London was also being carried out by Continental banks. Consolidation is also occurring around big banks at the expense of smaller ones, again favouring London where most of them are based.

Although it is hard to calculate the number of jobs which have been transferred to the City in this way, we estimate the number to be 1,000 to 2,000. This is small in the context of the 35,000 jobs which are reported to have been lost in the recent cutbacks. But it is significant in the longer term because it implies that a structural shift is taking place, and that when the upturn comes, firms will rebuild on enlarged London bases. The City could thus emerge in a stronger position.

We found evidence of a similar consolidation taking place in other areas such as legal services and computer software.

Technology is aiding this process in two ways: by facilitating remote market access, and by increasing the savings that can be made by centralising operations in one place. Ironically, the euro is also helping by making it easier for banks and financial firms to tackle many markets from a single base. There is some offsetting dispersal to these benefits. For example, venture capital firms and hedge funds are extending their physical presence across other EU countries. But in jobs terms, the numbers are small.

> **The London effect**
>
> A large Continental fund management firm found that its Belgian clients preferred to deal remotely with London than directly with staff in Brussels. They felt more "plugged in" to the markets.

11. Being close

The physical dimension to the financial services industry is still enormously strong despite the growth of remote access, telecommunications, virtual markets etc. The City's traditions of openness and easy access - at least in the old Square Mile - make this one of its strengths.

There are several dimensions to this.

Being seen. Getting around and meeting people enhances credibility, creates bonds. This is particularly important for second-tier banks whose international reputation depends to a large extent on the quality of their London presence.

Being in the flow. Despite the arrival of the electronic information age, people still value information picked up through informal contacts: it is more likely to be "exclusive", and more likely to lead to new business. The greater proportion of business is done with people with whom there has been previous face-to-face contact.

> *"In the main the culture of 'my word is my bond' lives on. There is growing openness and transparency in the markets which is crucial to their long-term success."*
> **Corporate governance specialist**
>
> *"A reputation for integrity and business ethics should be a factor."*
> **Financial journalist**
>
> *"Someone who has survived in the City is tried and tested, can be trusted, knows the language, can initiate a deal with a handshake."*
> **Corporate financier**

The buzz. In-house trading floors still provide the best setting for a successful trading business: they generate atmosphere, spark ideas, reinforce teamwork, can be more tightly managed. Although outsourcing and home working are growing, these have not managed to replace what one banker described as "the departure lounge atmosphere".

It is worth noting, though, that the desired proximity is less to clients than to peers and competitors, underlining the importance of "clusters". Bankers like to be where other bankers are, and research analysts prefer to be close to their trading floors than to the industries they analyse. In fact, the City's largest corporate clients - UK-based and overseas - accept this preference to the extent that they are prepared to make the trip to the City to meet institutional shareholders, rather than expect the City to come to them. Many multinationals have established finance arms, even complete headquarters, in London largely for the purpose of maintaining contact with the City.

One respect in which London has a particular advantage is in the strength of its "**subscription markets**". Unlike most markets where people use information to competitive advantage, subscription markets require information to be shared for a collective purpose, as in a syndicate. London possesses some of the world's largest subscription markets: the international loan syndication market, the Lloyd's underwriting market, the primary issuance market for Eurobonds and equities. These all require a high level of cooperation and trust which can generally only be achieved through face-to-face contact. This is a feature which is not shared by Continental financial centres, and only to a lesser extent by New York.

That said, it is becoming more difficult to achieve physical contact, partly because the "City" is now split between the Square Mile and Canary Wharf, partly because the long hours worked by City folk have cut the time available for after-work hobnobbing.

The City and the euro
by Benedikt Koehler

Many people assumed that locating the European Central Bank in Frankfurt would create optimal conditions for a financial centre, so it was taken for granted that Frankfurt would soon encroach on the City's territory. We now know that Frankfurt stands no better chance of attracting global finance business than does Washington by being home to the Fed. Indeed, since the introduction of the euro, Continental centres have been in relative decline; the doomsters have been proven wrong.

The Eurozone and steps towards a single market have given a huge fillip to the City. At the end of the last decade, the volume of European mergers and acquisitions overtook corresponding numbers in the US. City-based investment banks booked substantial fee income from arranging these deals, and their trading room colleagues earned commissions by launching jumbo eurobond issues to raise funding.

But does this imply that Britain should adopt the euro? Most executives we met differentiated between questions for the UK as a whole and those for the City where the prevailing view is that the effects are neutral. But this is overlaid by what many of them see as a more contentious issue: membership of the EU itself.

Those that oppose UK entry into the euro say membership would make it far more difficult for Britain to withstand the raft of directives emanating from Brussels, which aim to create a level playing field between different financial centres, and could blunt many of London's advantages, for example in employment practices. But they also have wider concerns that British membership of the euro would be detrimental to UK plc, and point to the Eurozone's lower growth rates and higher unemployment.

Those who advocate euro membership focus more specifically on the City's interests. From their point of view, a definitive declaration by the UK to remain outside the euro would sideline Britain from steps towards further European integration and prompt financial institutions to review where they base their European headquarters. One senior executive pointed to Hong Kong's relative decline in the Chinese market, and said it would be difficult to imagine that one of the world's leading currencies would have its central money market located outside its own area. However, another executive pointedly remarked that the creation of a single market in Europe depended on an integrated financial market, and the euro would be hampered without a financial centre as dynamic as the City.

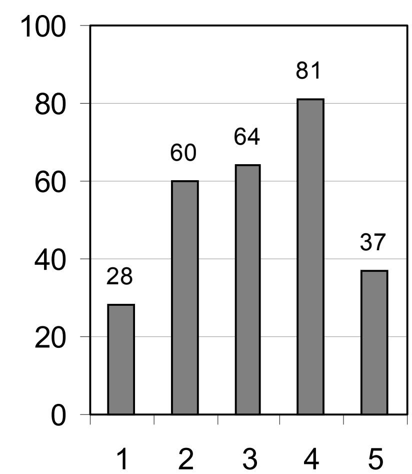
But irrespective of whether Britain joins the euro, the financial sector in Europe is merging into a single marketplace. Brussels, the ECB, the FSA and a bevy of other stakeholders are arguing over who should regulate this process. One of the defining characteristics of regulation, UK-style, is that it is seen to promote competition, whereas the leading priority of regulation, Brussels-style, is to protect consumers. Some believe that Europe's financial regulation is heading for a clash of civilisations, and the City will be caught in the crossfire. London has a strong interest in ensuring it is not sidelined in these discussions.

Benedikt Koehler is a German banker and consultant to the CSFI on this report.

12. Europe

The City has mixed feelings about Europe in relation to its competitiveness. The weight of responses to our question about the importance of the UK's relationship with the eurozone showed that it is seen as important, but the distribution of responses was quite wide, and our interviews revealed a variety of views about the value of the EU generally. (Interestingly, there was no obvious geographical pattern to these views: respondents from America, the Far East and even the Continent were just as likely to say the relationship was important as unimportant.)

How important is the UK's political relationship with the eurozone to the City's international competitiveness?
1=less important 5=very important
No. of responses



As regards the **EU in general**, we found positive views of the business potential of European markets, and the role that Europe might play to enhance London's standing at the global level. But this was tempered by mounting frustration with what are seen to be ill-judged initiatives from Brussels in the financial area, and growing scepticism about the EU's ability to deliver the single market in financial services on which many of the City's European hopes depend. "A constant exercise in damage limitation" is how one trade association described it to us. Although distinct from the issue of euro membership, this jaundiced view of the EU colours many City people's feelings about the single currency.

On the euro, we found considerable strength of feeling about the UK's position on both sides of the argument. The pro-membership camp argued that only through full membership of EU institutions could the City secure its dominant position in Europe in the long term - and some saw evidence of this in its declining share of certain markets: exchange-traded derivatives and foreign equities, for example. They also pointed to the promise of new markets, particularly on the savings and pensions side, to which the City would have more assured access as a euro member. The anti camp emphasised the risk of greater interference from Brussels and Frankfurt if the UK entered the eurozone, as well as the importance to the UK generally of maintaining what seemed to be a successful independent monetary policy. They also pointed to the fact that the lion's share of new euro-denominated business - eurobonds, foreign exchange and corporate deals - had been handled from London, suggesting that staying out was no loss.

<u>We also encountered the perception of a widening gulf between the City's interests and those of the rest of the European financial services market.</u> As international wholesale financial business becomes increasingly concentrated in the City, its priorities are diverging from those of the largely consumer-driven markets elsewhere in Europe. Hence the City's frustration with a Brussels agenda which is heavily influenced by localised consumer protection concerns. Many people complained that Brussels was unsympathetic to the City's point of view, or unreceptive to the case that the City's skills benefited the EU as a whole. "If something causes collateral damage in London, no one will lift a finger", said one respondent.

Views of Europe

"I believe that long term exclusion from the euro will erode full access to the single market and to crucial economic decision-taking."
City trade association director

"The biggest threat to the City would be for the pound to join the euro, and therefore ultimately political subjection to Brussels."
Investment banker

"London's role will come under threat because
- the centre of gravity in Europe will shift for political reasons (eg the UK not in the euro / geopolitics), and
- Paris and Frankfurt will get their act together to compete better."
City economist

"It is imperative that the UK momentum towards appeasing the EU directives and wishing to be 'part of the club' are held more tightly in check."
International securities market executive

"The euro has helped the City by making Europe regional rather than local. However, crucially, it is irrelevant whether we are in or not."
Financial analyst
US investment bank

"The euro could never have been launched without the City."
German economist

13. Innovation

London has a strong reputation for financial innovation: it attracts many of the financial world's brightest minds, and provides a constant flow of new ideas and products. For many institutions, this is a key reason for being in the City: to be at the cutting edge. Indeed, the power to innovate lies at the heart of London's prospects. If it ever lost it, it would become the mere purveyor of commoditised products that other centres could easily imitate, and its franchise would evaporate.

One of the intriguing questions is why other centres have not done this already: steal London's ideas. The incentive for them to do so is strong: they could do it more cheaply back home, with less competition, and in less demanding markets. Yet almost all the innovative financial activity in Europe takes place in London: investment, trading, structured finance, mergers and acquisitions - even regulation. New developments like Islamic banking, automated trading systems, energy markets have tended to concentrate in the City in recent years. There are exceptions: electronic trading in Germany, for example, and quantitative finance in France. But these have not elevated Frankfurt and Paris to the same level as London.

> *"Innovation is rewarded in the City."*
> **Investment banker**
>
> *"You can get up-and-running and profitable quite quickly here."*
> **European banker**
>
> *"The more complex the product, the more difficult it is to move it out of London. Complexity favours the City."*
> **US investment banker**

True, there are limits to the City's power of innovation: it can be superficial, driven by short term demands rather than the urge to create something wholly new. The important thing, though, is that it keeps coming. Why?

Part of the answer is clear: US banks, the source of much innovation, concentrate their European activities in the City. Part of it has to do with the intensely competitive nature of business in the City: people constantly have to invent better mousetraps to stay ahead in a market where inventions cannot be routinely patented.

Part of it, too, has to do with a social and regulatory climate that welcomes innovation. There is even a virtuous circle at work because the trend towards complexity in financial products places an ever higher value on London's skills, and in turn attracts more innovators. The UK's tax climate is said to be particularly good for entrepreneurial areas of finance such as venture capital and private equity.

The regulatory environment is also key to this. On balance, the comments we heard about the regulator were positive, though we found mixed views about the FSA's handling of its statutory requirement to have regard to the facilitation of innovation when it makes regulations. In some areas – eg hedge funds – practitioners spoke of its constructive attitude. In others – eg electronic markets – we encountered complaints of unhelpfulness, though to be fair to the FSA, this is an area where developments are increasingly being driven at the EU level.

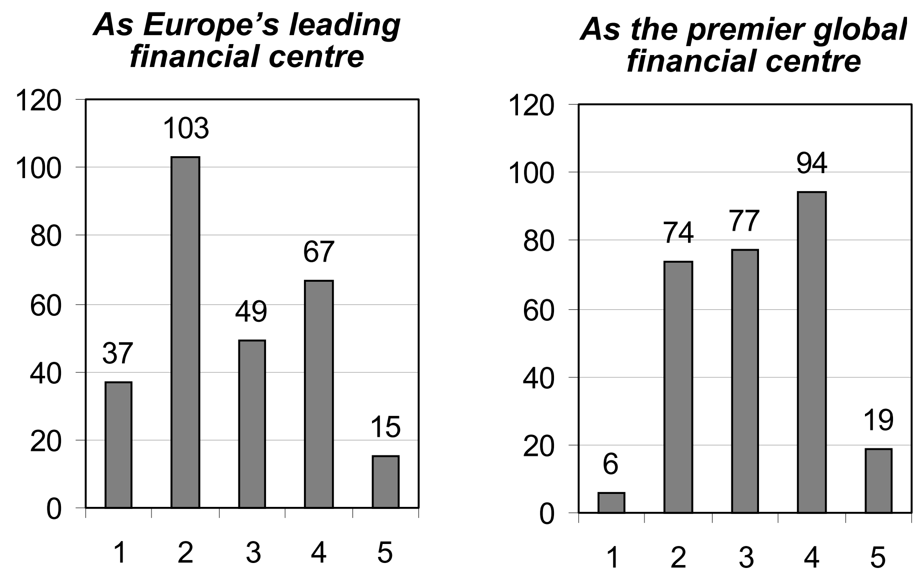
14. Is London under threat?

We asked our respondents to look to the future and answer questions about London's prospects as a European and global centre.

Over the next five years, how likely do you think it is that the City's role will be challenged successfully?

1=most unlikely 5=very likely

No. of responses



Respondents thought that London was more likely to lose its global position than its place as Europe's leading financial centre. But whereas the distribution of responses on the global financial centre question was bunched, it was uneven on the European question, suggesting a greater uncertainty in people's minds.

We sought to identify some of the reasons why London might lose its pre-eminent position.

If the City's role (either within Europe or internationally) does come under threat, what are likely to be the main causes?

Avg score 1=most unlikely; 5=very likely

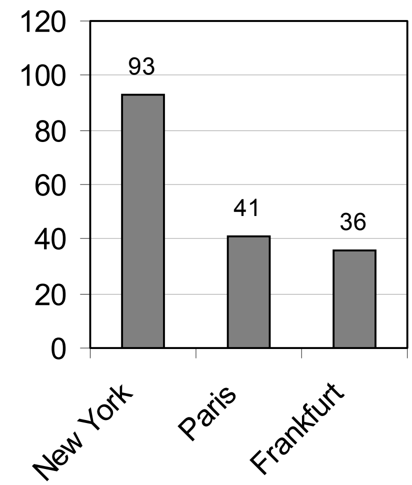
1	**Initiatives from Brussels**	3.76
2	**Excessively onerous regulation**	3.75
3	**Corporate/personal tax issues**	3.51
4	**Quality of life issues**	3.31

The answers suggested that London's greatest vulnerability is to official action of some kind, and the high score given to Brussels reinforces the comments made earlier about negative perceptions of EU initiatives. They also showed sensitivity to tax issues. But it is worth recalling that London was the clear leader in the earlier question about which financial centre would have the best regulatory environment in five years' time.

If London lost its appeal, where would people go?

Although New York was the clear winner, many non-UK institutions expressed a preference for returning to home base, which favours New York given the weight of the US presence in the City. But this question was clearly more challenging than it seemed. Several respondents felt unable to give an answer. One said "I can't imagine", another said "Nowhere. We'd shut down."

Regardless of how likely the prospect is, imagine that your business had to transfer from the UK. Where would it go?
No. of responses



The view from Frankfurt
by Ruediger von Rosen

London is impressive, and not only from Frankfurt's perspective: all the statistics put it in an unchallenged position at the top of Europe's financial sector. The City on the Thames has the most banks, the biggest stock exchange, the greatest number of listings: not to mention bearskin hats which are considerably more impressive than guard uniforms in Germany.

Back in the 1990s, the decision to locate the European Central Bank in Frankfurt nourished some German hopes that it might be able to compete with the City as a financial centre. But this soon proved unrealistic, despite strong points such as Eurex's success as a derivatives exchange and Frankfurt's access to Europe's largest economy. The City has additional strengths: its high standard of professionalism, its patience (not only when it comes to queuing), and its willingness to take on entrepreneurial risks. The UK has also adjusted its social security system to demographic trends ahead of Germany.

However, even a brief visit to London shows that this high standing exacts a price. A taxi ride from Heathrow to the West End can cost as much as an economy flight from Frankfurt to London - and sometimes take longer. Expatriates in London complain about high rents, long commutes and pollution - in spite of the congestion charge.

On returning from London, it is not unknown for bankers to appreciate the pleasures of a town as ostensibly provincial as Frankfurt. With a population of 650,000, it will never be counted an international metropolis. But it is compact and manageable, and has won several awards for its urban quality of life. From anywhere in the city, it takes no more than 20 minutes to reach the surrounding green belt.

The current debate about Frankfurt's prospects as a financial centre sometimes invokes a future in which all Germany's banks will be managed out of London. The transfer of entire departments of German banks to the City in the wake of the recent massive restructurings of the local banking industry supports this view. But this scenario is unrealistic. The fact of the matter is that retail business - the stock in trade of German banks - has to be done locally. It is as inconceivable that a London investment banker should fly in on the red-eye and drive for hours to call on some small company in a remote corner of the Black Forest, as it is to imagine that Frankfurt could overtake London as Europe's leading financial centre.

In a single European financial market, the name of the game is less about competition and more about division of labour and cooperation, irrespective of whether the local currency is the euro or the pound. Competition henceforth is increasingly transatlantic. In times of balance sheet scandals and Sarbanes-Oxley, UK and German regulations have demonstrated their quality. Frankfurt and London should follow the route via Brussels to build on what they have in common.

Ruediger von Rosen is managing director of the Deutsches Aktieninstitut, Frankfurt

Section 3

Some emerging conclusions

London's competitive position is strong. It far outclasses Continental centres in all areas except the quality of the living and working environment. It is marginally less strong than New York in the quality of its workforce and further behind in the commitment of government to support it. But we found no evidence that this is driving business from London to New York. A presence in the European time zone remains essential for all global financial institutions, while a City address is still the first choice for second tier banks seeking international status.

London's greatest asset is the people who work there. To remain competitive, London will have to ensure that it provides a challenging and rewarding working environment which attracts the best talents. Any moves to reduce working flexibility would be very damaging, particularly *vis-à-vis* London's main competitor: New York.

A culture that encourages innovation is key to London's success – and to its prospects. Unless London constantly comes up with new ideas, other centres will be able to imitate it.

The City is changing. It is losing much of its back office because of cost pressures, but it is gaining front office as the centralisation of the European finance industry and markets progresses. London is becoming an increasingly high-powered centre of decision-makers, deal-makers, fund managers, analysts and traders. This distillation will make a challenging mix for government and regulators, and increasingly differentiate London from the rest of Europe.

The City has mixed feelings about the UK government. It feels harassed by anti-City sentiment in Westminster, and confused by signals from Whitehall. A clearer line from government on City policy would help. However, both government and UK public opinion are more tolerant of the City's excesses than Continental centres.

The London regulatory environment is a big plus, particularly having a single regulator. But there is mounting concern over the swelling regulatory tide and the narrowing scope for differentiation within the EU. UK regulators can keep the UK regime special by stressing openness and accessibility, striking the right balance between risk and protection, and maintaining a high quality dialogue with City institutions.

From **UK plc's point of view**, the City is not in the financial services business, but in the business of providing a good working environment for institutions that are largely foreign-owned. Its competitiveness therefore depends on how well the UK manages that environment, which means regulation, tax, living and working conditions. Although the City is expected to maintain its attractive regulatory environment, there is pessimism over crumbling infrastructure, rising taxes and government's readiness to support the City.

The danger in London's success is not so much complacency as arrogance: an attitude that says (as one person did to us): "If people don't like it here, where can they go?" The fact that there are no ready alternatives to London in the European time zone is comforting, but worrying too. It provides at best a negative reason for being in London - one that could quickly disappear if conditions changed. It also creates resentment - a streak of which we discerned, for example over tax and transport issues.

Appendix 1: Methodology

This survey is based on a combination of questionnaires and interviews.

Questionnaire: 727 questionnaires were sent to City-based respondents. 274 responses were received, a 38% response rate. The response by type of institution and region was as follows:

	UK	N.Am	Europe	Far East	Lat. Am	MEA	**Total**
Commercial banks	21	3	29	25	0	14	**92**
Investment banks	3	11	8	1	0	0	**23**
Insurance companies	0	1	0	1	0	0	**2**
Fund managers	8	2	0	0	0	0	**10**
Professional firms	35	16	4	1	0	0	**56**
Other institutions	49	10	9	1	0	0	**69**
Total	**116**	**43**	**50**	**29**	**0**	**14**	**252**
Private responses	**-**	**-**	**-**	**-**	**-**	**-**	**22**
Overall total							**274**

Interviews: We interviewed 76 individuals and institutions, including:

ABC International
Alektor
Alternative Investment Mgt Assn
Amadeus Capital Partners
Aon
Association of British Insurers
Association of Foreign Banks
Assn of Private Client and Investment Managers
Austrian National Bank
Banca d'Italia
Banco do Brasil
Bank of England
Bank of Montreal
Bayerische Landesbank
Beazley
Berwin Leighton
BNP Paribas
British Bankers Association
British Telecom
British Venture Capital Association
Cardew Chancery
Citigroup
Clifford Chance
CSFB
Daimlerchrysler
Danske Bank
Deutsche Bank
European Parliament
Fidelity
Financial Services Authority
Finantia
French Embassy
Futures and Options Association
Goldman Sachs
Gow & Partners
HM Treasury
Instinet
International Financial Services London
International Primary Market Association
International Underwriting Association
Investment Management Association
JPMorganChase
Lloyd's
London Investment Banking Association
London Stock Exchange
Macquarie Bank
Morgan Stanley
Moscow Narodny
Misys
Nedcor
Nomura
Reuters
Royal Bank of Scotland
RZB
Schroders plc
SEB
Standard Chartered
Stora Enso
UBS
WestLB
Z/Yen

A number of interviewees asked to remain anonymous.

Appendix 2: Questionnaire and responses

1. A couple of preliminary questions on competitiveness

1.1 **How important do you think the following are in determining the competitiveness of a financial centre?** *Please rate them 1 to 5; 1=less important; 5=very important*

	Mean value
A light regulatory touch	3.54
A favourable personal and corporate tax regime	3.88
A competent regulator that commands respect	4.01
A government that is responsive to the financial sector's point of view	3.84
A pool of skilled labour	4.29
An attractive living and working environment	3.45

1.2 **Whether or not you have ever worked outside the UK, how do you think the key financial centres rate in terms of these criteria?** *Please rate them 1 to 5; 1=very bad; 5=very good*

(Mean value)

A light regulatory touch

London	3.38
Frankfurt	2.81
Paris	2.74
New York	3.01

A favourable personal and corporate tax regime

London	3.61
Frankfurt	2.44
Paris	2.50
New York	3.61

A competent regulator that commands respect

London	3.90
Frankfurt	3.00
Paris	2.83
New York	3.75

A government that is responsive to the financial sector's point of view

London	3.25
Frankfurt	2.93
Paris	3.01
New York	3.91

A pool of skilled labour

London	4.42
Frankfurt	2.97
Paris	2.83
New York	4.42

An attractive living and working environment

London	3.58
Frankfurt	2.62
Paris	4.01
New York	3.62

2. A few questions about regulation

2.1 **Please indicate whether you agree or disagree with the following statements**.
1=strongly agree; 5=strongly disagree (breakdown of responses)

"The regulatory burden imposed by the FSA is becoming unbearable"

1	28
2	98
3	101
4	40
5	6
Mean value	3.37

"Having a single financial regulator is a big advantage for London"

1	58
2	116
3	68
4	25
5	6
Mean value	3.71

2.2 **How do you think the regulatory environments in the major financial centres compare?**
Rate them 1 to 5; 1=less attractive; 5=more attractive (Mean value)

London	4.18
Frankfurt	2.98
Paris	2.96
New York	3.84

2.3 **Five years from now, the regulatory environment may well have changed. Who do you think will have the most positive regulatory environment in five years' time, from the point of view of running a financial services business? (***No of responses)*

London	148
Frankfurt	17
Paris	20
New York	97

3. A couple of questions about government's role

3.1 **Please indicate whether you agree or disagree with the following statements.**
1=strongly disagree; 5=strongly agree (no of responses)

"The best thing the government could do for the City is leave it alone"

1	4
2	59
3	79
4	85
5	44
Mean value	3.39

"Other governments help their financial sectors more than the UK government does the City"

1	7
2	54
3	75
4	92
5	40
Mean value	3.39

3.2 **Is there a government that, in your view, does significantly more to support its financial sector than the UK**?

	No of responses
Yes	148
No	78

If yes, which?

US	51	Ireland	15
France	49	Switzerland	7
Singapore	18	Hong Kong	6
Germany	15		

4. The infrastructure issue

4.1 **How important do you think the following are in creating an overall living and working environment?** *Rate them 1 to 5; 1=less important; 5=very important (Mean value)*

Public transport	4.40
Housing	4.12
Education facilities	3.89
Medical facilities	3.62

4.2 **How do you think the key financial centres rate on these criteria?** *1=very bad; 5=very good (Mean value)*

Public transport

London	2.01
Frankfurt	3.89
Paris	3.95
New York	3.26

Housing

London	3.15
Frankfurt	3.66
Paris	3.79
New York	3.27

Education facilities

London	3.52
Frankfurt	3.50
Paris	3.68
New York	3.39

Medical facilities

London	3.10
Frankfurt	3.91
Paris	4.05
New York	3.74

4.3 **As for "business infrastructure", how do you think the major financial centres rate on:**
1=very bad; 5=very good (Mean value)

Breadth / depth of markets?

London	4.63
Frankfurt	2.84
Paris	2.56
New York	4.65

Cost / efficiency of clearing and settlement?

London	4.00
Frankfurt	3.37
Paris	3.00
New York	4.49

5. The human factor

5.1 **When assessing the labour situation in a financial centre, which is most important?**
1=less important; 5=very important (Mean value)

Flexibility of labour legislation	4.25
Size of skilled labour pool	4.23
Total cost of labour	3.98
Availability of ancillary services	3.77

5.2 **How do major financial centres compare on these criteria?** *1=very bad; 5=very good (Mean value)*

Size of skilled labour pool

London	4.57
Frankfurt	2.89
Paris	2.89
New York	4.65

Flexibility of labour legislation

London	3.96
Frankfurt	2.20
Paris	2.12
New York	4.41

Total cost of labour

London	3.39
Frankfurt	3.08
Paris	3.00
New York	3.48

Availability of ancillary services

London	4.64
Frankfurt	3.14
Paris	3.10
New York	4.70

6. Europe

6.1 **In your opinion, how important is the UK's political relationship with the eurozone to the City's international competitiveness?**
1=less important; 5=very important

	No of responses
1	28
2	60
3	64
4	81
5	37
Mean value	3.14

7. Is London under threat?

7.1 **Over the next five years, how likely do you think it is that the City's role will be challenged successfully?** *1=most unlikely; 5=very likely*

As Europe's leading financial centre

1	37
2	103
3	49
4	67
5	15
Mean value	2.70

As the premier global financial centre

1	6
2	74
3	77
4	94
5	19
Mean value	3.17

7.2 **If the City's role (either within Europe or internationally) does come under threat, what are likely to be the main causes?** *1=most unlikely; 5=very likely*

	Mean value
Initiatives from Brussels	3.76
Excessively onerous regulation	3.75
Corporate or personal tax issues	3.53
"Quality of life" issues	3.31

7.3 **Regardless of how likely the prospect is, imagine that your business had to transfer from the UK, where would it go**?

	No of responses		
New York	93	Ireland	4
Paris	41	Geneva	3
Frankfurt	36	Netherlands	3
Brussels	11	India	3
Dublin	11	Italy	3
Switzerland	6	Lisbon	3
Amsterdam	6	Zurich	1
Channel Islands	5		

8. Finally, a question on what success really means

8.1 **When we try to assess the competitive success of the City, what criteria should we use?**
1=unimportant; 5=very important

	Mean value
Leading edge in finance	4.40
Percentage share of market	4.35
Contribution to UK GDP	4.02
Locus of key decision making	3.91
"Bums on seats"	3.30
Nationality of senior staff	2.30

Note: In the original questionnaire, responses were rated 1-5, "1" being very important and "5" being least important. For this report, responses have been inverted since most readers will associate a higher score with greater importance.

Appendix 3: Statistics

1. Market share

The following statistics on the share of business conducted in various financial centres were provided by International Financial Services London.

International financial markets						
% share	**UK**	**US**	**Japan**	**France**	**Germany**	**Others**
Cross-border bank lending (Sept 2002)	19	9	9	6	10	47
Foreign equities turnover (2002)	56	25	…	…	3	16
Foreign exchange dealing (April 2001)	31	16	9	3	5	36
Derivatives turnover						
- exchange-traded (2002)	6	30	3	6	13	42
- over-the-counter (April 2001)	36	18	3	9	13	21
Insurance net premium income (1999)						
- marine	19	13	14	5	12	37
- aviation	39	23	4	13	3	18
International bonds (2002)		...	...	...	...	...
- primary market	60	...	...	...	...	...
- secondary market	70	...	...	...	...	...
Trends in London's share (%)	**1995**	**1998**	**1999**	**2000**	**2001**	**2002**
Cross-border bank lending	17	20	19	19	19	19[1]
Foreign equities turnover	61	65	56	48	56	56
Foreign exchange dealing	30	32	...	...	31	...
Derivatives turnover						
- exchange-traded	12	11	8	8	7	6
- over-the-counter	27	36	...	...	36	...
Insurance net premium income						
- marine	24	19	19	...	...	...
- aviation	31	31	39	...	...	...
International bonds						
- primary market	...	...	60	60	60	60
- secondary market	70	70	70	70	70	70
[1] 1 September						

2. Processing costs

The following statistics showing the different processing costs for foreign exchange and equity trades in various locations were supplied by Z/Yen.

	Average Annual Fully Loaded Cost per Head		Cost per Trade (Operations)	
	Foreign Exchange	**Equities**	**Foreign Exchange**	**Equities**
UK – Central London	$126,000	$141,000	$5.5	$3.6
UK – Non-Central London	$68,500	N/A	$5.0	N/A
Western Europe – Major City	$87,500	$92,000	$4.5	$12.4

(source Z/Yen Limited 2001, 2002 benchmarking reports)

The Corporation of London

The City of London is exceptional in many ways, not least in that it has a dedicated local authority committed to enhancing its status on the world stage. The smooth running of the City's business relies on the web of high quality services that the Corporation of London provides.

Older than Parliament itself, the Corporation has centuries of proven success in protecting the City's interests, whether it be policing and cleaning its streets or in identifying international opportunities for economic growth. It is also able to promote the City in a unique and powerful way through the Lord Mayor of London, a respected ambassador for financial services who takes the City's credentials to a remarkably wide and influential audience.

Alongside its promotion of the business community, the Corporation has a host of responsibilities which extend far beyond the City boundaries. It runs the internationally renowned Barbican Arts Centre; it is the port health authority for the whole of the Thames estuary; it manages a portfolio of property throughout the capital, and it owns and protects 10,000 acres of open space in and around it.

The Corporation, however, never loses sight of its primary role – the sustained and expert promotion of the 'City', a byword for strength and stability, innovation and flexibility – and it seeks to perpetuate the City's position as a global business leader into the next century.

CORPORATION OF LONDON