How banks lost the ear of Britain's govt over Brexit

'We have entered a period of severe danger'

LONDON: One afternoon in mid-January, Prime Minister Theresa May walked into a meeting room in the Swiss resort of Davos to face Wall Street's most powerful bankers. May had delivered her vision two days earlier for pulling Britain out of the European Union's single market. Now the Wall Street banks, fearing Britain was headed for trouble, wanted to hear more about her strategy.

At stake was London's future as a global financial centre. Among those present were Lloyd Blankfein, chief executive of Goldman Sachs, Jamie Dimon, chief executive of JPMorgan Chase, and James Gorman, chief executive of Morgan Stanley. Blankfein, a former gold trader raised in the Bronx who worked his way up to lead one of the world's most powerful investment banks, was the most direct during the talks, according to two bankers and a government official with knowledge of the meeting.

"Lloyd asked where does the financial services industry stand in her list of priorities," according to one senior banking executive briefed on the discussion by his boss. "We contribute a double-digit percentage to Britain's GDP. We're the biggest taxpayer in the country."

Questioning

May gave a reply about the importance of financial services but declined to answer the question directly, the sources said. Some of the bankers left questioning her commitment.

May and the banks declined to comment on the meeting. Over the past two decades, Goldman, like many of the other 250 foreign-owned banks in Britain, has consolidated its European operations in London to take advantage of the EU's $16.5 trillion-a-year single market. They are set to lose this wide-open access to a market of 500 million people after May signalled her main priority is to restrict immigration, which can only be achieved by leaving the trading bloc.

Senior bankers expected special treatment from the government after Britain voted to leave the EU. They expected ministers to champion their cause, above other industries, to retain unrestricted access to the single market for financial services. It isn't working out that way. A series of other meetings between bankers and government ministers have also ended badly, Reuters has learned.

Bankers say May's ministers don't understand the industry and what is at stake, and don't want to hear negative news about Brexit. "We have entered a period of severe danger," said a Wall Street executive who runs the European operations of a global investment bank. "Parts of the government are being way too complacent."

May's office, in a statement responding to the findings of this article, said the government didn't "recognize this version of events." The government is engaging intensively with the financial services industry, the statement said.

Politicians say the bankers are exaggerating the threat. Some rebalancing of the economy away from financial services - which accounts for about 12 percent of Britain's economic output - will be good in the long run, they say. "It is all just lobbying. They make a brouhaha," said Peter Lilley, a pro-Brexit Conservative politician and former financier, who sits on the parliamentary committee examining Britain's exit from the EU. "They always massively exaggerate."

The rift is in marked contrast to what's happening in the United States. There the populist backlash that made Donald Trump president has brought at least four former Goldman Sachs executives into senior positions in the new administration. But in Britain, the nationalist drive that produced Brexit delivered a prime minister determined not to be in thrall to bankers.

The result is that banks are preparing to move large numbers of staff from London, and Germany and France are trying to lure jobs to their financial capitals. Some bankers believe the big winner from Brexit will be New York because some business currently carried out in London would naturally revert to US headquarters. HSBC, UBS and Morgan Stanley have decided to move about 1,000 staff each from London in the next two years, according to sources familiar with their plans. This week Goldman Sachs said it would begin moving hundreds of people out of London as part of contingency plans for Britain leaving the EU.

LONDON: A European and British Union flags hang outside Europe House, the European Parliament's British offices in London. Britain's government will begin the process of leaving the European Union on March 29, starting the clock on the two years in which to complete the most important negotiation for a generation. —AP

Not crying wolf

Since Prime Minister Margaret Thatcher's "Big Bang" financial deregulation triggered a massive expansion of the industry 31 years ago, bankers have relied on being a powerhouse of Britain's economy to find a receptive ear in government. But in the aftermath of the vote to leave the EU, the sector is grappling with a new reality. Last year's vote triggered a change in leadership and tone at the heart of Britain's government. May pledged an industrial revival and to build an economy that works for everyone, not just the elite.

Reuters spoke to more than 40 senior bankers from big British and international banks, politicians, government officials and lobbyists to piece together how the relationship between these pillars of Britain's establishment became strained. Those people say there are conflicting opinions about what the long-term results of Brexit will be for the world's fifth largest economy and whether finance should remain the biggest driver of its wealth.

Negotiators

The government is making two calculations, these people say. The first is that bank executives are bluffing over moving jobs. The second: The EU is so dependent on London to service its debt that EU negotiators will give UK financial services a special deal to continue to operate unrestricted across the single market. EU officials counter that finance is mobile and business will move to other locations. Britain's finance industry contributed a record 71.4 billion pounds ($88.7 billion) in corporate and employee taxes to the government last year, according to the City of London Corporation. That is an amount equal to Britain's annual spending on primary education, the police, and the army. Put another way, finance contributes almost as much in tax as all taxpayers in Scotland and Wales combined. Nevertheless, May's ministers began telling bankers in the autumn they would not get any special treatment in the Brexit negotiations. The second most powerful executive at one of Britain's biggest banks said he and his colleagues felt wrong-footed. The executive said that he no longer receives phone calls from British cabinet ministers or invitations to Downing Street receptions as he did under previous governments.

"With May there is almost no interest or affection. She is keeping us at arm's length," the executive said. "I will probably never meet May." Brexit minister David Davis, who will decide the industry priorities in the upcoming Brexit talks, rammed home the message that the government's relationship with the financial sector was changing in his first few meetings with bankers.

Davis, a Eurosceptic from a working class background, bristles at being told what to do by bankers, according to colleagues and people who interact with him. Davis declined to comment. In an early phone conversation, he told one executive that the finance industry had damaged its relationship with the government by saying the economy would suffer from reduced immigration. The EU vote had delivered a clear message that immigration must be curbed, he said.

Davis publicly attacked banks in October in parliament. He accused them of "an extraordinary outpouring almost of grief, a 'blame Brexit' festival," and of lying that they were going to fire staff because of Brexit. Davis's aides also warned executives they need to be more positive about the opportunities of Brexit if the government is going to listen to them, two banking sources said.

Bank executives complain they feel they can't speak freely. "Everyone is worried about stoking up the Brexiteers, fuelling the flames," said the chairman of one of Britain's biggest insurance companies.

A government official said the bankers' portrayal of the relationship doesn't accurately reflect the character of the meetings or the tone of the Davis team's engagement with financial services firms. The official declined to go into specifics. The appointment of Simon Kirby as minister responsible for financial services further raised concerns among some bankers. They doubted that Kirby, who founded a radio station and a chain of nightclubs before going into politics, was suitable to be the main government liaison to the industry, these bankers said.

In November, many of the most senior executives and chairmen of Britain's finance companies met him for the first time. Kirby failed to answer basic questions about the government's policy towards financial services, according to people who attended. "It was almost like he didn't know what a bank is or what it does," said one of the people present. Kirby declined to comment. A few weeks ago Kirby was quietly removed from his Brexit role. He will continue to work in the finance ministry, with responsibility for areas including regulation. The Treasury said it wanted a new minister to focus on assessing Brexit's impact on financial services.

Masters of the universe

Jacob Rees-Mogg, a Conservative lawmaker and financier, says the government is relaxed about bankers' threats because the vote was a rejection of an economic system that benefited the banks. "It's condescension from the clever people, the masters of the universe," he said. "They don't like the fact that they've been overruled by the people who voted for Brexit."

He said banks historically don't follow through on their threats. At the turn of the century, some financial sector executives warned the failure to join the euro would lead to a withering in London's role as a hub for business. And after the 2007-09 financial crisis many banks also threatened to move operations overseas. On both occasions, Britain's finance sector expanded. Shanker Singham, a trade expert who has held meetings with the Brexit department, told Reuters the government has also been frustrated with the banks because they exaggerated how much they depended on EU "passporting," a set of regulatory agreements that allowed them to sell services across Europe. — Reuters