SELLING LONDON

Career financier Alan Yarrow, Lord Mayor of the City of London for 2014-2015, talks to Sarah McCay, Editor of *Finance Monthly*, about why international investors should still use London, improving London's image domestically and abroad, the importance of self-regulation in the financial industry, and the potential impact of deflation on the UK

Alan Yarrow has spent 43 years working in the financial industry in London. His tenure saw him work his way up the ladder of the city's leading investment banking institutions, enjoying the city's highs and lows, working through the 'Big Bang' era of the mid-1980s and the subsequent transformation of London into the financial powerhouse it is today.

An industry stalwart, Mr. Yarrow's career has also included terms as Chairman of LIBA (London Investment Banking Association), Member of the Takeover Panel, and Vice Chairman of the FSA Practitioner Panel.

His civic career has been equally notable, including terms as Alderman for Bridge & Bridge Without, service as a Justice of the Peace, Sheriff, and in 2013, as HM Lieutenant of the City of London.

In November 2014, he was invested as the Lord Mayor of the City of London, head of the City of London Corporation, in charge of services for the Square Mile – the heart of London's finance district.

He has big plans for his year in office, not least improving London's international standing and endorsing self-regulation in the finance industry.

"There are a number of plans: there are plans which are domestic and plans which are external. I speak for the city as much as I speak to the city. Speaking for the city I think the city has to improve the image that has been created by economic circumstances of the past five years and part of that is getting the admissions right – admissions of failure and of mistakes – and also saying that we recognise we have made mistakes and that we are doing something about it and are disciplining those who have erred," Mr. Yarrow states.

The message the Lord Mayor wants to get out is that London's financial market understands things have gone wrong, but that the industry is doing concrete things to get it right. "If I can leave a vestige of understanding in the market, having done something to improve the image of the city, then I will feel like I have achieved something," he says.

Mr. Yarrow's 43 years of industry experience is, naturally, a big boon for his year in office. He comes at things with an insider's knowledge, and is probably one of the city's biggest critics, as well as one of its biggest ambassador.

"I have done most things and been most places. I've been a stockbroker, I have been an investment banker, I have been involved in capital markets, I have raised money, and my fundamental ethos is to raise money for growing companies which improve the economy, and that is the manifest of where I have been working," he explains.

Having been involved in the active coalface of the finance industry, in 2000, Mr. Yarrow took a change in career path moving away from running a big equities business to work in policy and improving the market. This move saw him take up the Chairman's role for LIBA, an advocacy group of investment bankers, who worked with the European Commission on ISD2 (MiFID).

"I made LIBA the place where you came to. Where the European Commission came to, the Treasury came to and the regulators came too when they wanted to know the opinion of the investment banks. It doesn't sound very interesting but I tell you, it was like herding cats!" he admits.

"Trying to find the common message of the banking sector was critical. We had a very effective advocacy group talking to people on issues that impacted the city."

A dedicated ambassador, supporting and promoting the City as a world leader in international finance and business services, the Lord Mayor travels extensively, in liaison with the Foreign and Commonwealth Office and UK Trade & Investment, fostering goodwill and boosting British trade, particularly the markets and services of the City.

For Mr. Yarrow, coming to office in the wake of London's 'Fixing Forex' scandal, promoting the city and getting out into the global market is more important than ever. However, he says that the image outside the country is very different to the one inside.

"The message coming from overseas is 'don't start apologising for what you've done wrong, just tell us what you have done about it and what we can learn from it as an overseas market so we don't make the same mistakes'. They really appreciate an open and honest discussion," he says.

"Number one is to let people know that they can come to the city and get quality advice on subjects that they might not get a proper debate on at home, and that is why Mansion House becomes a convening point for people who want to have financial discussions. The city is seen as being a balance of international and western finance, which is a fantastic place to be. The information is that, from the outside, the trust has not been as damaged as on the inside."

Selling London

During his 12 months in office, Mr. Yarrow will follow a hectic programme of international visits leading delegations of senior business representatives to meet those at the highest levels of government and industry in overseas countries. This is with the aim of selling the City as a place in which to do business and promoting its expertise. This can range from advice on raising capital for major infrastructure projects to private finance initiatives and government-industry co-funding arrangements. Naturally, he is confident in the product he is selling.

"Three out of the world's five biggest law firms are in London, all the largest accountants effectively come from this country, the markets, the property exchange, insurance are all based here. It is a one-stop-shop," he says.

"We have 8.6 million of the population living in London, and one third of businesses are created in London. It is the cluster that helps. If you are looking for advice it is much easier to come to one place, and few countries can offer what we offer here in London."

Mr. Yarrow points out that while advice on investment is vital, what also sets London apart as an international market is its rule of law.

"There is a rule of law that is well established and reflective of a fair and objective opinion. We have good dispute resolution processes in the form of arbitration and you should never underestimate the value of legal contract which, again, is difficult to establish in some foreign countries.

"Also, we are a destination where people come to invest in property. Just look at Qatar Investment Authority's (QIA) recent purchase of Canary Wharf Group," he says.

One of the key selling points of London is the London Stock Exchange (LSE). Located in the City of London at Paternoster Square, it falls under Mr. Yarrow's remit as Lord Mayor. The LSE is the fifth largest stock exchange in the world and the second largest in Europe. As at December 2014, the Exchange had a market capitalisation of US$ 6.37 trillion (€5.6 trillion).

Xavier Rolet, the current CEO of the LSE, was Mr. Yarrow's Head of Trading when he worked at Kleinwort's and sat on his markets committee at LIBA, along with Robert Barnes, CEO of Turquoise, he therefore knows the LSE and its inner workings very well.

"I think the LSE is doing a fantastic job. It is the fastest growing equity market in Europe with Turquoise, the equities and derivatives trading platform. Turquoise is growing very rapidly, it has also changed its approach to its corporate structure; it recognised that the gross revenues of markets across Europe are so low, I think at about €120 million gross revenue of all exchanges, that diversification was critical. The LSE has therefore bought other businesses to broadening their support services for investment funds and also they work very closely with their customers. All those issues are very important; you have got to have a collegiate approach to markets," Mr. Yarrow maintains.

Alibaba

For 2014, one of the big talking points of the market was not a major win, but the loss of the Alibaba floatation in September.

"Why didn't Alibaba come here? It's because we believe there should be one class of equity. We believe the value of equity should be protected We don't believe in having multiple classes of share because that is the way you get cronyism," says Mr. Yarrow.

"Because we wouldn't agree to the listing of dual class of share it effectively went away from us, but because we wanted it to. $25 million is a big float to miss, but it is not about one listing. Despite NYSE getting Alibaba, LSE is in rude health and gaining rapidly," he maintains.

GFC and self-regulation

Arguably, the financial world has learnt a lot since the global financial crisis (GFC) of 2007/2008. Today, a sea change is taking place – not just in the market but also in the morals of the market, and this is one change the Lord Mayor is championing with spirit.

"From 2003 onwards, and the build-up to 2007/08, there was a loss of focus on the service to the client. People were overtaken by a very selfish greed which looked at how much they could make despite what they were doing and for whom. That was the thing that really did the damage. We have to recognise the fact that the priority is the client. And that they have to be re-established as the person who needs to receive the good service and advice," he says.

"I chair the Chartered Institute for Securities & Investment (CISI) – we look at integrity and ethical issues and '*dictum meum pactum*' (my word is my bond) is our motto, the other one is 'the client comes first'," he adds.

Talking about the '*Culture of Banking*' report, released in November 2014 by the New City Agenda, a financial services think tank and forum, the Lord Mayor is candid in his apportion of blame.

"Let's be honest, it wasn't just the banks – it was right across the board. It was a change of attitude, which took place after 2000, that really did the damage. The banks just happened to have balance sheets that they could get compensation from.

"The senior level of the banks have all been cleaned out and sorted. Now we have the more painful process of getting the ethos and the culture embedded back into the big structure of 150,000 people and also to recognise that they also have got to put through changes that are going to take time. It's going to take 5-10 years. We have to approach this for a long-term change. What is it they say? 'Reputation rises by foot but goes out in a Ferrari'?" he remarks.

Self-regulation and business morals are in the heart of Mr. Yarrow's message.

"Self-regulation is critical and I think that trade bodies play a very important part here. But trade bodies and professional institutes also have to have an instance of disciplining their members. CISI has to discipline their people if they misbehave. What we are looking for is more professionally qualified people who have to sign up to a set of professional principals that focuses on their behaviour and we are very keen we make sure we maintain a strong representation of professions in the finance world," he states.

"Appropriate regulation is necessary in any market. A lot of that is done by self-regulation and behaviour. I think the pendulum has swung too far when it comes to self-regulation and I would like to see it swing back again and become much more of a feature of the future. We are tougher and fairer on our own people as a self-regulatory organisation because you are being judged by your peers and not by some official regulator from outside."

Europe's woes, London's gains?

The pound sterling jumped in value against the Euro as soon as the European Central Bank (ECB) announced its Quantitative Easing (QE) programme in late January. While Mr. Yarrow sees the currency fluctuations as a natural reaction, he remains wary of how the ECB's QE programme will pan out, and who may indeed actually benefit?

"The problem is whether or not the money from QE finds its way to the right places. There is a degree of 'ownership' of the bonds, which effectively is national. The ECB, I believe, is responsible for 20% of the bonds. So by definition those people who are heavily in debt already have less room to manoeuvre," he explains.

> *"The consumer has had an enormous boost to their pocket in view of the 30% reduction in oil prices, and we will start to see this come through to the wage packet in the next six months and then we will start to see inflation again."*

At the centre of the Eurozone financial crunch sits the SME and the Lord Mayor is mindful of how QE will impact this vital core of Europe's economy.

"Because Europe is so banking related and because the banks need to improve their capital buffers this makes them more mindful of who they lend to. The SME is at the bottom of the pile of people they would like to lend to. The thing about SMEs is that they are paranoid about cash flow. We need to be tougher on governments to pay their major contractors on time and tougher on the major contractors to pay the SMEs on time. It's a food chain. At the end of the day, small companies live on cash. I saw somewhere the other day where some company had changed its payment terms from 60 to 120 days – that is criminal. That is an attitude that has to change," he says.

"QE is important and it had to happen and has happened, but we have to look at cash flow to small companies. 99% of companies in the UK, and 98.5% in the Square Mile, are SMEs. If you are an SME you might employ five people; if you put one more person on that is a 20% increase. If you are Glaxo Smith Cline, for example, and you merge, the first thing you look at is how many people you can cut out."

So while Europe debates its financial future, should the UK now feel vainglorious in its decision not to enter the currency bloc? The Lord Mayor thinks not, but balances the positives and negatives of the Sterling standing alone.

"Look at what happened to the Swiss Franc. No currency can possibly stand up to the global flows that happen. Its fine when things are going well and when you have your borrowing under control, and its fine when things are generally looking good, but you do want a bigger pool to protect you when things go wrong. But what we have is the ability to devalue and revalue. It gives more flexibility and ammunition to government if their currency is floating. There's no doubt about that," he maintains.

Looking forward

The financial future still remains difficult to predict, with the UK facing possible deflation. Inflation hit its lowest point since 1960 towards the end of February, with many industry analysts predicting deflation to be just a month away. However, Mr. Yarrow is quick to point out that there is good deflation and bad deflation, and that in this scenario deflation is definitely a good thing.

"The lowering cost of fuel is good. However, I think it's very temporary – this so called benefit of deflation. I don't know anyone who has put off buying anything because they think it will be cheaper tomorrow. However, I think the consumer has had an enormous boost to their pocket in view of the 30% reduction in oil prices, and we will start to see this come through to the wage packet in the next six months and then we will start to see inflation again.

"Manufacturers are also seeing the benefit of a decrease in expenses. This will impact at least 1% GDP. That's important," he predicts.

So all is good news, or at least it will be in six months or so? Mr. Yarrow has other concerns.

"No one has asked the question about balance of payment or the invisible balance of payment recently. These are all issues that will come out of the woodwork and give the currency a big shock. It won't be good news," he forecasts.

"We are selling all these assets off, such as Canary Wharf to QIA. These pay a rent and these are invisible capital flows going out of the country. You might see the capital coming in for buying it but then someone has to pay the rent. If they buy Canary Wharf, why? Because they want an asset in London, and they can get a foreseeable income flow, but that income comes out of the balance of payments. What's Canary Wharf going to do with the money? Chances are they might invest it outside of the UK. Looking at that, those two issues are going to be pretty critical going forward and it's going to be bad news."

Challenges lay ahead, whether from deflation, the balance of payments deficit, or further uncertainty in the Eurozone. However, if Mr. Yarrow does deliver on his promise of improving the image of the city, London will be in a stronger position than ever to tackle these challenges head on.