

# The Power of Big Finance

How to reclaim our democracy from the banking lobby

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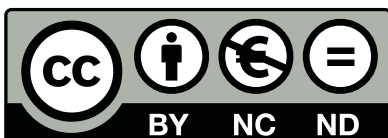
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# Executive summary

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Everyone deserves an equal voice in our democracy, but over decades, corporate lobbyists have exercised excessive influence over the system and a handful of politicians have let them, writing the rules in their favour. Taken together, ‘Big Finance’ — banks, investment firms, insurance companies and other large financial firms — form the most powerful interest group in the UK, and have leveraged that power to design a system that puts their commercial priorities above the public interest.

Decades of economic policymaking has prized the growth of the City of London above all other regions of the country and sectors of the economy. Whole industries and communities have been neglected and households drowned in debt to feed the financial sector’s growth. This prioritisation of finance is maintained by the sector’s ability to exert influence over the policymakers who make the rules. If we are to genuinely ‘level up’ the whole of the UK and address inequalities, we will need to ensure that the voice of the City of London does not overpower all others.

Following Brexit, the future of UK financial regulation is there for the taking. The financial sector and its allies in government are seizing this opportunity to further entrench a regulatory framework that prioritises the growth and ‘international competitiveness’ of the City. The last time we allowed financial regulators to become cheerleaders for finance, we ended up with the global financial crisis of 2007-08, which had devastating consequences for the public.

This report illustrates the extent to which powerful financial firms are exerting substantial influence over the policymaking process through the following five channels: financial ties with parliamentarians, lobbying key decision-makers, maintaining a revolving door between finance and government, promoting false narratives, and opposing reforms that would reduce the economy’s structural dependence on financial firms.

Recent polling shows that 76% of the UK public do not believe that Members of Parliament will make decisions that improve their lives (Carnegie UK, 2022). The public is losing faith in our democracy’s ability to deliver outcomes that serve our shared interests, and it’s easy to see why. The pandemic, the climate crisis, and the cost of living crisis are demonstrating how vital it is to have public institutions that work for the public good, and to make sure those in power can’t exploit their position for personal gain. And yet corruption and conflicts of interest have repeatedly made the headlines over recent years. We need public institutions that we can trust to show integrity and act in our best interests.

To achieve financial policymaking that genuinely serves society, we need to introduce new rules that guard against conflicts of interest, disincentivise parliamentarians, civil servants and regulators from shifting to and from the financial sector, improve lobbying transparency, and establish a robust regulatory framework for the financial sector aligned with the public interest. To minimise our economic dependence on banks and card companies, the Bank of England should launch a central bank digital currency and operate it as a public utility, providing a fair and inclusive payment method for all. Finally, the government should support the establishment of a diverse ecosystem of stakeholder banks.

It's high time we reclaim democratic control over our financial system and put it to good use, channelling finance towards a fair and sustainable economy.

### ***Channels through which big finance exerts influence***

Channel	Findings
Financial ties	<p>Financial institutions and individuals closely tied to the sector collectively spent £2.3 million directly on MPs throughout 2020 and 2021, partly as payment for second jobs and speeches, and partly as donations, gifts, and hospitality.</p> <p>A fifth of peers in the House of Lords have registered paid positions at financial institutions, including over half of peers on the committee responsible for investigating matters related to economics and finance.</p> <p>Financial institutions and individuals closely tied to the financial sector donated a total of £15.3 million to political parties throughout 2020 and 2021.</p>
Lobbying	<p>Close to a third of Treasury minister meetings in 2020 and 2021 were with the financial sector and its lobbyists, far more than any other sector.</p> <p>There are at least 18 finance trade associations and industry groups in the UK with turnovers above £1 million, with a combined annual turnover of more than £145 million in 2020-2021.</p> <p>Finance-related consultations are frequently dominated by business interests advocating for weaker financial regulation.</p>
Revolving door	<p>Every single former Chancellor of the Exchequer in the past 40 years has gone on to take up paid positions in the financial sector after leaving public office.</p> <p>Over the past decade, financial institutions that hired a former UK Chancellor benefited on average from a 59% increase in meetings with government departments.</p> <p>Almost three quarters of all past and present Bank of England decision-makers have held roles in private finance.</p>
False Narratives	<p>Powerful financial institutions and their allies in government are attempting to build political and public support for the sector by presenting it as the 'engine of the economy' and a solution to environmental breakdown.</p> <p>These narratives misrepresent the overall impact of the UK financial sector, which neglects investment in small businesses and the real economy, and continues to finance fossil fuels to the tune of tens of billions of pounds annually.</p>
Economic dependence	<p>The banking sector derives political power from the persistence of 'too big to fail' banking, and from the fact that policymakers often utilise the financial sector to implement economic policies.</p> <p>The City of London also holds political power on an international scale, as it remains a globally dominant financial centre that other economies depend on.</p>

## Summary of recommendations

**Recommendation 1:** Strengthen standards for the registration of interests for MPs, peers, and Ministers by updating the Members' Code of Conduct and Ministerial Code.

**Recommendation 2:** Ban second jobs for MPs except for public service roles, and cap the amount they can be paid for speeches.

**Recommendation 3:** Cap political party donations and require All-Party Parliamentary Groups (APPGs) to disclose funding sources.

**Recommendation 4:** Extend the statutory Register for Consultant Lobbyists to include in-house lobbyists by amending the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act.

**Recommendation 5:** Update the Ministerial Code to require departmental disclosures to be published on a monthly basis and to include essential information about the content of meetings.

**Recommendation 6:** Reform the appointment process for the Bank of England's committee members, ban future external committee members from holding positions at regulated financial institutions while serving at the Bank, and require committee members to disclose their financial interests.

**Recommendation 7:** Update the Business Appointment Rules to establish longer 'cool off' periods and bans on lobbying for ministers, civil servants, and independent regulators, and establish a statutory body to enforce these rules.

**Recommendation 8:** Discard plans to introduce growth and international competitiveness objectives for regulators, and instead introduce statutory objectives on financial inclusion and alignment with the Paris Agreement.

**Recommendation 9:** Require the FCA and PRA statutory panels to consist of at least 50% public interest representatives.

**Recommendation 10:** Establish a new financial services joint committee to provide in-depth scrutiny over changes to legislation and regulation.

**Recommendation 11:** Implement a fair and inclusive digital payment method provided as a public utility.

**Recommendation 12:** Foster a more diverse banking ecosystem that serves the needs of local economies and communities.



# Introduction

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A battle over the future of financial regulation is in full swing. Having exited the European Union (EU), the United Kingdom (UK) government is in the midst of a multi-year legislative process to develop a new regulatory framework to govern its financial system. By establishing a new framework for financial rule-making, including regulatory objectives and principles, accountability mechanisms, and stakeholder engagement processes, this new legislation will determine the future direction of the financial system and whose interests it serves.

To capitalise on this defining period in financial regulation, private finance is aligning and mobilising behind a deregulatory agenda to maximise profits at the expense of wider society.<sup>1</sup> In the most recent phase of the regulatory review, financial institutions backed plans for the ‘international competitiveness’ of the financial sector to be reinstated as an objective for regulators (UK Finance, 2022). The Queen’s Speech reaffirmed the government’s intention to move ahead with this reform in a new Financial Services & Markets Bill (HM Treasury, 2022).

In the past, a competitiveness objective resulted in regulators adopting a ‘light-touch’ approach that allowed the reckless and fraudulent practices responsible for the 2008 Global Financial Crisis (GFC) (Thomas, 2021). Recent polling reveals that two thirds of the public believe the government’s proposal is out of touch and elitist, while nearly seven in ten (67%) people think the proposal puts the needs of the City of London first, undermining the government’s levelling-up ambitions (Finance Innovation Lab, 2022).

To ensure that the new regulatory regime is designed in the public interest, it is necessary to understand how private finance is exerting power over the policymaking process to achieve deregulatory outcomes. The impact of finance’s different forms of power varies over time, and has been the subject of intense academic scrutiny and debate (James and Quaglia, 2018). Most recently, many viewed Brexit as demonstrating the limits of finance’s power, given the sector’s failure to win its overwhelming preference for retaining access to the Single European Market (Thompson, 2017).

However, with the support of qualitative and quantitative empirical evidence, and drawing on the latest scholarly research, we argue that finance remains a disproportionately dominant player in shaping the policies that govern it. We identify five key channels that provide the financial sector with political power: (i) financial ties; (ii) lobbying; (iii) revolving doors; (iv) narratives; and (v) economic dependence. The report is structured around these channels of power.

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1. It is important to note that not all financial institutions are focused on maximising profits at the expense of the wider public interest. In particular, there is a small but growing movement of ethical finance providers, including credit unions and regional mutual banks, that operate according to social and environmental principles. We use the term ‘private finance’ broadly to refer to for-profit financial sector firms. We use these terms, as well as ‘financial sector’ and ‘private financial companies’, interchangeably throughout the report.

**Section 1 — financial ties — details the interests that parliamentarians hold in the financial sector, as well as the donations that political parties receive.** The financial sector spent £2.3 million directly on MPs throughout 2020 and 2021, paid one in five peers in the House of Lords (including a majority of those on the Economics Affairs Committee) as employees, and donated £15.3 million to political parties in 2020 and 2021.

**Section 2 — lobbying — covers the financial sector’s mobilisation of resources to lobby financial policymakers.** In 2020 and 2021, close to a third of all Treasury Minister meetings were with financial institutions and their lobby groups, far more than any other sector. Furthermore, business interests dominate public consultations relating to private finance, advocating for weaker financial regulation. While the total lobbying spend of the financial sector was estimated at £93 million in 2012 (Mathiason et al., 2012), we find that the finance lobby groups alone recorded a total turnover of over £145 million in 2020-21.

**Section 3 — revolving doors — outlines how individuals seamlessly shift back and forth between high-ranking public service roles and the financial sector.** We find that every single Chancellor of the Exchequer in the past 40 years has gone on to work in private finance, and firms employing a former Chancellor benefited on average from a 59% increase in meetings with government departments over the past decade. Meanwhile, three quarters of current and former Bank of England (BoE) decision-makers worked in private finance at some point in their careers, while close to a quarter retained roles in the financial sector while serving at the BoE.

**Section 4 — narratives — outlines the stories that the financial sector promotes about itself, with the support of its allies in government.** As we face the interconnected challenges of soaring inequality, COVID-19, and environmental breakdown, private finance claims to be the UK’s engine of economic growth, innovation, and efficiency. We outline evidence to the contrary, showing that the UK’s oversized financial sector has harmed the real economy, driven environmental collapse, and failed to provide adequate support to vulnerable customers during the pandemic.

**Section 5 — economic dependence — argues that the financial sector also wields excessive structural power due to the central role it plays in the economy.** Banks have become ‘too big to fail’, as the five largest UK banks account for close to 70% of total banking assets in the country (World Bank, 2021). The City of London also provides core financial infrastructure that policymakers utilise to implement policy, and international financial markets depend on to operate effectively. Consequently, many policymakers align their decisions with the financial sector’s preferences by default, regardless of explicit lobbying efforts.

**Section 6 — recommendations — puts forward proposals on how to counter the strategies of power outlined in the first four sections of the report.** Despite the significant political power that private finance holds, policy victories for the financial sector are not inevitable: the power of finance can be broken. To achieve financial policymaking aligned with society’s needs, we need to prevent conflicts of interest, slow the revolving door, improve lobbying transparency, establish a regulatory framework aligned with the public interest, and restructure the financial system with the establishment of stakeholder banks and the introduction of a central bank digital currency that operates as a public utility.

# 1. Financial ties

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The Houses of Parliament exist to provide effective scrutiny to government policy. As representatives of the public, members of both houses hold responsibility for voting on financial policy. For each government department, there is an equivalent House of Commons Select Committee, which is made up of cross party groups of MPs, and is responsible for scrutinising the departmental spending, policies, and administration. The House of Lords Select Committees do not have the same overarching responsibility for a government department, but investigate specific subject areas to provide advice.

Financial ties between public officials and private institutions can result in conflicts of interest, where policymakers or their employers stand to benefit financially from policy decisions. With the vital role that Parliament plays in holding the Government to account, this section covers the financial ties between private finance and parliamentarians, as well as the financial sector's donations to political parties.<sup>2</sup>

## 1.1. Spending on parliamentarians

Throughout 2020 and 2021, **47 MPs received £2.3 million from for-profit financial sector firms**, such as investment banks, insurance companies, and wealth management firms.<sup>3</sup> This total is based on MPs receiving direct incomes from second jobs, donations, gifts, and trips outside of the UK.

MPs with the most expensive ties to the financial lobby have been well documented by the media, as the public have become increasingly enraged with Parliament's second jobs scandal. As Figure 1 shows, five MPs have earned £1.2 million in direct personal payments from the financial sector in the period 2020-21.

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2. Some interests and paid positions are excluded from the data in this section: not-for-profit financial firms are excluded, as are charities engaged in financial activity, and minor companies that serve as personal financial arrangements. However, interests and paid positions in a wide range of for-profit financial sector firms are included, such as those with building societies, mutuals, trading platforms, sovereign wealth funds and investment consultancy firms.

3. This data is valid up to the 13th December 2021, and covers all declared paid interests on the Register of Members' Financial Interests from the start of January 2020 to end of December 2021.

**Table 1:** Five MPs with largest cumulative payments received from the financial sector 2020-21.

Name	Key Roles	Political Party	Total Payments Received from Financial Sector (2020-21)	Financial Institution(s)	Services Provided
John Redwood	Conservative MP	Conservative and Unionist Party	£470,948	Charles Stanley	Chairman of Investment Committee
				EPIC Private Equity	Adviser
Andrew Mitchell	Former Treasury Minister	Conservative and Unionist Party	£218,267	Investec	Senior Adviser
				Arch Emerging Partners Ltd	
				SouthBridge	
				Kingsley Capital Partners	
Theresa May	Former Prime Minister	Conservative and Unionist Party	£200,270	JP Morgan Chase	Speeches
				Amundi Asset Management	
Sajid Javid	Secretary of State for Health and Social Care	Conservative and Unionist Party	£175,000	JP Morgan Chase	Senior Adviser
				HSBC	Speeches
				Muzinich & Co	Speech
Bill Wiggins	Chair of Selection Committee	Conservative and Unionist Party	£133,394	Emerging Asset Management Ltd	Managing Director
				Allpay Ltd	Non-Executive Director

Source: Authors' calculations based on the UK House of Commons Register of Members' Financial Interests, dated 26 April 2021 and 13 December 2021.

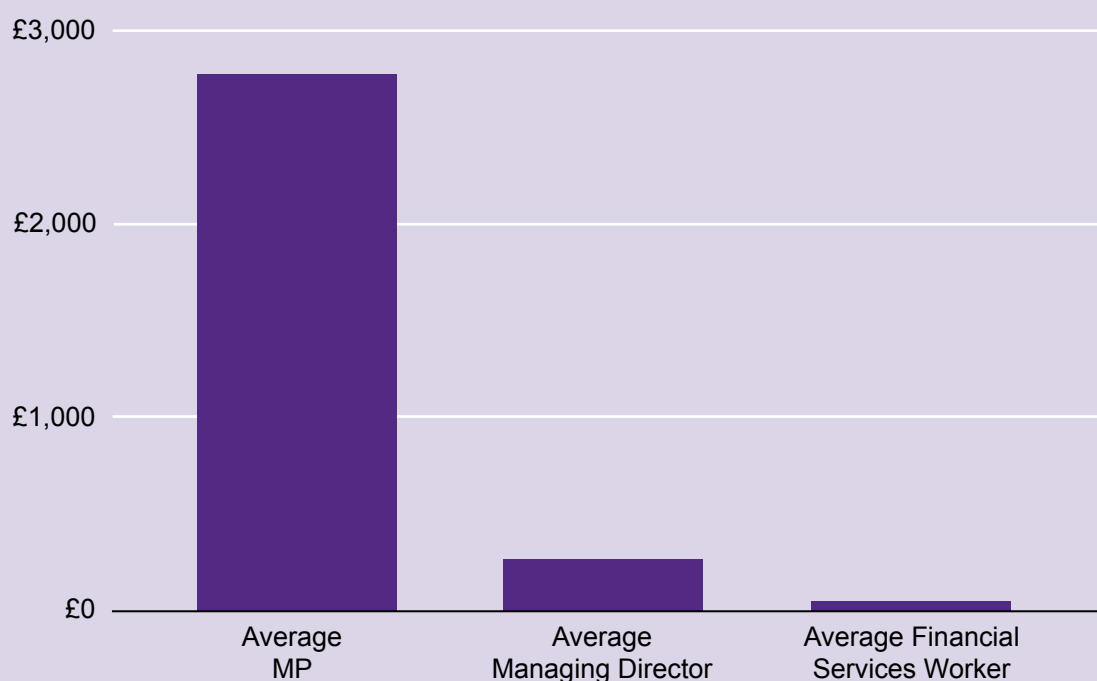
Although a handful of MPs are paid large salaries from powerful investors, a full 10% of MPs in the 2019 Parliament have disclosed within the Register of Financial Interests that they have financial ties with for-profit financial sector firms and individuals closely tied to the financial sector.

Specific institutions and individuals within this group are particularly overrepresented. For example, the US-based investment bank JP Morgan was the largest spender on employing MPs, paying over £300,000 to just three MPs for their speaker engagements and advisory roles. Significant donations to MPs from individuals linked to private finance included £112,870 from Trevor Chinn (Senior Adviser to CVC Capital Partners), £65,000 from David Coldman (former Chairman of Brit Insurance), and £50,000 from Victor Blank (former Chairman of Lloyds TSB).

### Box 1: Hourly rate of pay to MPs for services provided to financial institutions

For the 47 MPs that received payments from the financial sector, the average payment received over the two year period was £48,936. 26 of these MPs documented zero hours of work, receiving payments from the financial sector in the form of donations, gifts and hospitality. For the 21 MPs who recorded work in exchange for payments, the most common services provided to financial firms were acting as an adviser, consultant, or delivering speeches. As Figure 1 shows, large sums of money are paid to MPs in exchange for minimal hours of work, resulting in extremely high hourly rates. On average, the MPs who completed work for the financial sector were remunerated at £2,738 an hour.

**Figure 1:** Hourly rate of pay from financial sector.



Note: Average MP hourly wage is inclusive of speeches and both short and long term work contracts.

Source: Authors' calculations based on data disclosed in the UK Parliament Register of Members' Financial Interests (dated 26 April 2021 and 13 December 2021), ONS Average Weekly Earnings by Industry (December 2021), and Emolument (May 2016). Emolument data is based on 1,433 salaries reported by employees in 18 top London banks, which have not been verified by the employers.

These payments do not break any laws (Transparency International UK, 2015). However, it is no secret that the main benefits MPs can offer private institutions are insider information, leverage over policy, and direct access to decision-making. As articulated by journalist Richard Brooks' oral evidence to the House of Commons Committee on Standards, these jobs are "given to a Member of Parliament because they are a Member of Parliament", not because of any meritocratic value that they add (House of Commons Committee on Standards, 2022).

There is a lower standard of transparency in the House of Lords' register of interests. Peers only provide brief qualitative descriptions of their interests without any disclosure of income. Furthermore, peers are exempt from disclosing their interests when on a leave of absence. However, reviewing the available data, we find that approximately one in five of all peers<sup>4</sup> that registered interests have disclosed paid positions at for-profit firms in the financial sector, which predominantly consist of senior management roles, advisory roles, and board memberships. Peers also disclose paid interests other than employment, often including holding shares in multiple large financial firms. Table 2 provides a snapshot of peers' interests in the financial sector.

**Table 2:** All peers' interests in the financial sector.

Lords that disclosed one or more paid interests in the financial sector	27%
Lords that disclosed one or more paid positions in the financial sector	20%

Source: Authors' calculations based on the UK Parliament Register of Lords' Interests as at December 2021.<sup>5</sup>

Within committees that are particularly influential for the regulation of financial services, we find a number of clear conflicts of interest in both houses. In 2021, the Treasury Select Committee — 11 MPs responsible for scrutinising all aspects of Treasury, Bank of England, and Financial Conduct Authority (FCA) policy — included three MPs that held shares in financial institutions or have received payments from financial institutions (or individuals closely tied to finance).<sup>6</sup> In the House of Lords, the Economic Affairs Committee — responsible for investigating matters related to economic affairs, including financial regulation — has a severe conflict of interest problem. Over half of the 13 members of the Economic Affairs Committee, including the chair, have disclosed they hold paid positions with for-profit financial sector firms, and over half of all 48 past and present members (2001-2022) that disclosed their interests held paid interests with for-profit financial firms.

4. The figures we arrive at for the peers' interests exclude 38 peers who are either exempted from disclosure or for whom no disclosures data is available.

5. Since December 2021, five Lords have died: Lord McKenzie of Luton (Dec 2021), Lord Hughes of Woodside (Jan 2022), Lord Sainsbury of Preston Candover (Jan 2022), Lord Myners (Jan 2022) and Lord Chidgey (Feb 2022).

6. Data was collected on the members of the Treasury Committee in December 2021, since then the membership has changed. Current member, Anthony Browne (Conservative) held shares in two FinTech companies, both valued at over £70,000: Audit XPRT Ltd and Coconut Platform Ltd. Former member, Felicity Buchan (Conservative) declared shares of more than £70,000 in two major US banks: JP Morgan and Bank of America. Steve Baker (Conservative), also a former member, received a cumulative £19,500 from the Director of Ranworth Capital Limited and directly from Risk Capital Partners LLP.

**Table 3: Economic Affairs Committee: financial sector interests of past and present committee members.<sup>7</sup>**

Members that disclosed one or more paid interests in the financial sector	52%
Members that disclosed one or more paid positions in the financial sector	44%

Source: Authors' calculations based on the UK Parliament Register of Lords' Interests as at March 2021.

**Table 4: Economic Affairs Committee: financial sector interests of committee members**

Members that disclosed one or more paid interests in the financial sector	62%
Members that disclosed one or more paid positions in the financial sector	54%

Source: Authors' calculations based on the UK Parliament Register of Lords' Interests as at March 2021.

### Box 2: Are conflicts of interest shaping financial policy agendas?

There are at least two key areas in financial policy that are currently being shaped by the conflicts of interest outlined above: the ongoing Financial Regulatory Framework (FRF) review, and the Bank of England's decision over whether to launch a central bank digital currency (CBDC).

The FRF review, which is determining the future framework for financial regulation in the UK, has been heavily influenced by the recommendations put forward in the 'UK Listings Review' consultation process. Launched by Chancellor Rishi Sunak on 19 November 2020 as "part of a plan to strengthen the UK's position as a leading global financial centre," the UK Listings Review examines "how the UK can enhance its position as an international destination for IPOs and improve the capital-raising process for companies seeking to list in London."

The Call for Evidence conducted by the Review received submissions from Barclays, BlackRock, HSBC, and Revolut, among many other financial sector firms, but these are not publicly available — the firms were assured ahead of submission that "a list of respondents will be published, but individual contributions will not be published." After the review's publication, the Chancellor formally and explicitly credited it for influencing the Government's proposals for the FRF (UK Parliament, 2021). The response confirmed the Government "intends to take forward each of the recommendations made", including for HMT to consider "an additional 'growth' or 'competitiveness' objective for the FCA, as part of the Future Regulatory Framework (FRF) Review."

7. Tables 3 and 4 reflect the interests of 48 peers that were members of the Economic Affairs Committee and disclosed their interests. 19 peers were excluded who either did not disclose their interests due to exemptions, or for whom no disclosure data was available.



In addition to the lack of transparency and exclusive access granted to financial sector firms, the authors of the report were all paid employees of financial sector firms. The Chair of the UK Listings Review, Lord Hill, has disclosed several paid interests with the financial sector, including advisory positions with Santander, VISA Europe, Aviva plc, and (previously) UBS Group. To assist with writing the Review, Lord Hill brought together “an informal advisory panel”, consisting of a small group of individuals employed by large financial institutions, including BlackRock, Goldman Sachs, and UBS (HM Treasury, 2021b). Therefore, a small group of individuals, closely tied to the financial sector, had full control over the contents of the Review’s final publication and recommendations, and have used this exclusive access to successfully shape the Treasury’s financial policymaking in their own interests.

Similarly, the central bank digital currency (CBDC) policy agenda is being influenced by parliamentarians with significant conflicts of interest. In September 2021, the House of Lords Economic Affairs Committee launched an inquiry on central bank digital currencies: The inquiry collected written and oral evidence, which informed a final report on 13 January 2022 titled ‘Central bank digital currencies: a solution in search of a problem?’. The inquiry examined “the main issues confronting HM Treasury and the Bank as they conduct this work”, as well as “how a CBDC might affect the role of the Bank, monetary policy and the financial sector.”

In the report, the Economic Affairs Committee expressed scepticism about the need for a CBDC. The report’s key findings included concerns about maintaining high standards of cybersecurity, the risk that the public could perceive CBDC as a threat to privacy, and the possibility of CBDC facilitating the digital equivalent of bank runs in times of economic stress. The committee chair at the time of the report’s publication, Baron Forsyth, is quoted alongside the published report: “We took evidence from a variety of witnesses and none of them were able to give us a compelling reason for why the UK needed a central bank digital currency. The concept seems to present a lot of risk for very little reward. We concluded that the idea was a solution in search of a problem” (Economic Affairs Committee, 2022).

The key findings of the report, and Forsyth’s accompanying comments, show the extent to which the Committee neglected to engage with the public-interest case for launching CBDC (Bikas and Livingstone, 2020) and public support for maintaining direct access to central bank money in a digital economy (Bank of England, 2022). In addition, the report fails to acknowledge that multiple world-leading central banks (including the Bank of England) have published substantial research on possible ways to mitigate the same risks and challenges the report highlights (Bank for International Settlements et al, 2020).

An important consideration is that the Bank of England launching a CBDC could weaken the structural power of commercial banks and other large financial sector firms in the UK (see section 5 and recommendation 11). Therefore, there are serious questions to ask about whether a committee with such deep ties to private finance was in a position to write an unbiased account of the advantages and disadvantages of a public digital money system. For instance, Baron Forsyth holds the paid position of Chairman and non-executive Director at Secure Trust Bank plc, and is also a shareholder. Over 60% of the committee’s active members have registered paid interests in the financial sector.



## 1.2. Donations to political parties

**Between the beginning of 2020 and the end of 2021, for-profit financial sector firms, and individuals with close ties to the sector, donated £15.3 million to political parties.** For context, this means that 10% of all donations to UK political parties in 2020-2021 came directly from the financial sector. Table 5 below presents the cumulative donations from the largest 10 financial sector donors, over the period 2020-2021.

**Table 5:** Largest 10 donors to political parties from the financial sector 2020-2021.

Donor	Description	Recipient Political Party	Total Donation (2020-2021)
Mr Jeremy Hosking	Founder of investment management company, Hosking Partners	The Reclaim Party	£2,114,112
		Reform UK	£500,000
The Rt Hon Peter Andrew Cruddas	Founder of online trading platform, CMC Markets Plc	Conservative and Unionist Party	£875,750
Mr Malik Karim	CEO of finance advisory firm, Fenchurch Advisory Partners	Conservative and Unionist Party	£813,750
Alan Eldad Howard	Co-Founder of hedge fund, Brevan Howard Asset Management LLP	Conservative and Unionist Party	£566,130
Lubov Chernukhin	Former investment banker reportedly at JP Morgan and ABN Amro.	Conservative and Unionist Party	£529,997
Mr David Tilles	Executive Chairman at investment management firm, Mondrian Investment Partners	Liberal Democrats	£385,604
Britannia Financial Group Ltd	Global financial group of a range of investment, brokerage, and asset management services	Conservative and Unionist Party	£385,604
Mr Oluwole O Kolade	Managing Partner at private equity firm, Livingbridge	Conservative and Unionist Party	£255,888
Mr Mark Coombs	CEO of emerging markets investment manager, Ashmore Group	Conservative and Unionist Party	£250,000

*Continued*

Donor	Description	Recipient Political Party	Total Donation (2020-2021)
Mr Howard Paul Shore	Former Director of investment group, Shore Capital Group Limited	Conservative and Unionist Party	£250,000

Source: Electoral Commission Political Finance Database.<sup>8</sup>

Donations are a means by which individuals can gain influence over the policies put forward by political parties. The financial sector is overrepresented within this influential group of lobbyists: out of the top 500 largest donations from individuals to political parties from 2020-2021, 46% came from those with a financial background. Across the same period, a small group of top donors have been receiving increasingly direct access to political decision making at the highest level. In February, The Sunday Times investigation provided evidence that the Conservative Party has established an ‘advisory board’ of donors which have given over £250,000 to the party, who meet regularly with the Prime Minister, Ministers and special advisers (Pogrud and Zeffman, 2022). Former investment banker Lubov Chernukhin, who donated over £500,000 to the Conservative party in 2020-2021, has been reported to have used membership of this group as an opportunity to advocate against taxes on the ultra rich (Pogrud and Zeffman, 2022).

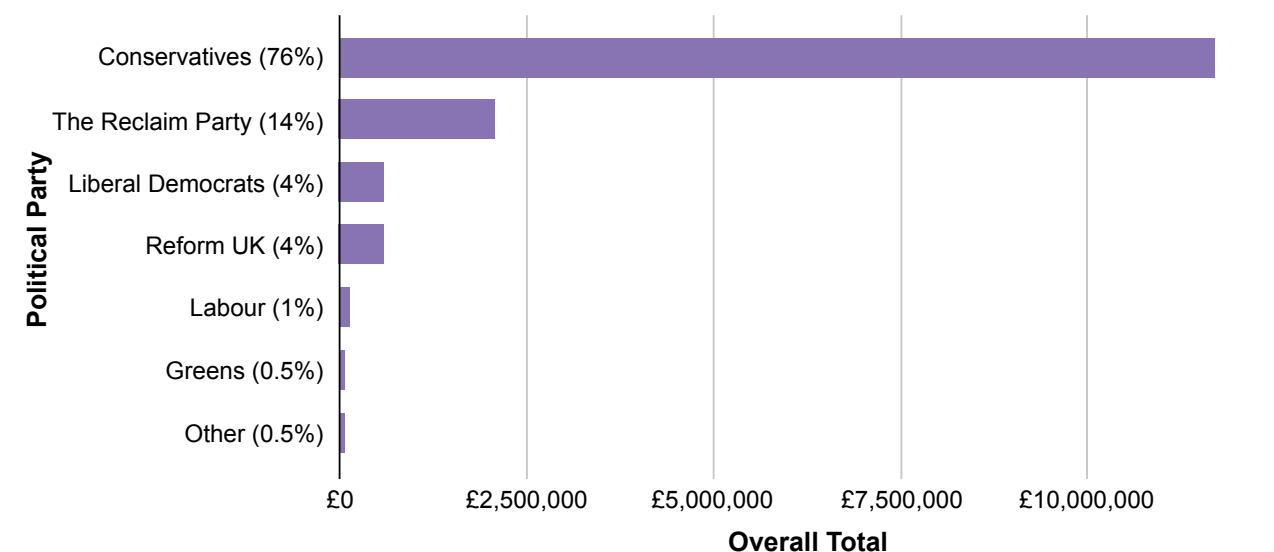
Heavyweight donors from the financial sector have also been granted seats in the House of Lords, formalising their status as political decision makers. Former Conservative Party Treasurer, Lord Crudas, was nominated for a peerage by current Prime Minister Boris Johnson. This was against the advice of the Lords Appointment Commission, due to allegations that Lord Cruddas had offered large party donors access to the Prime Minister to raise money for the Conservative Party (GOV.UK, 2020). Shortly after his accession to the House of Lords, Lord Cruddas donated a further £500,000 to the Conservative Party. Following a notably similar trajectory, Lord Spencer of Alresford, who has donated to the Conservative Party mainly via his trading group IPGL Ltd, was also appointed to the House of Lords following his role as Conservative Party Treasurer (Harris, 2021).

It is not just personal access that major donors seem able to purchase, but also government contracts for financial institutions that these individuals have personal financial stakes in. Mr Oluwale O Kolade donated over £250,000 to the Conservative Party between 2020-2021, whilst acting as a Managing Partner at private equity firm Livingbridge. Since April 2020, Efficio, a company owned by a parent company in which Livingbridge holds between 50-100% of shares, won at least £5.9 million in COVID-19 contracts from the Cabinet Office, Department of Health and Social Care, and NHS England (Byline Times and The Citizens, 2021).

8. Data is valid for donations to all political parties for entities listed as: Company, Other, Trust, Limited Liability Partnership, Impossible Donor, Building Society, and Individual, for the years 2020 and 2021. The 500 largest donations from individuals between 2020-2021 were analysed, meaning that this figure is likely a slight underestimation of the total.

These donations also enable individuals to lobby directly for interest-driven agendas. Figure 2 below shows the breakdown of donations from the financial sector by political party. As the party in government, and therefore in charge of setting policy, the Conservative Party received three quarters of the donations from the financial sector in 2020-2021. Despite their much smaller size, The Reclaim Party and Reform UK received huge donations from the financial sector. Mr Jeremy Hosking, founder of investment management company Hosking Partners, donated over £2.6 million to the two parties, which have recently become active in their campaigns for a referendum on net zero. Mr Hosking's firm, Hosking Partners, has been reported to have invested £134 million in the fossil fuel sector (Thévoz, 2022).

**Figure 2:** Proportion of donations to political parties from private finance (2020-2021).



Source: Author's calculations, based on the Electoral Commission Political Finance Database.

As stated by the Electoral Commission, “anyone can give a donation or loan to a political party, individual or other organisation”, with “no limit”, and responsibility falling to “the political party, individual, or other organisation to check if the donation or loan is from a permissible source”. Permissible donors include any company, trade union, or association that is UK-registered, and any individual on the UK electoral register (The Electoral Commission, 2022). In turn, donations from the financial sector have been accepted despite occasionally originating from controversial sources. Mr Malik Karim donated over £800,000 to the Conservative party whilst CEO of Fenchurch Advisory, a finance advisory firm. During the same period, Mr Karim is alleged to have earned a large sum of the profit of the sale of Fenchurch Advisory's client, LV=, to US private equity company Bain Capital (Collingridge and Makortoff, 2021). This sale was resisted by LV= members who lost out from the demutualisation of the fund, which was originally set up to provide insurance to the working poor in Victorian Liverpool (McGibbon, 2021). The Conservative party has also received substantial donations from Lubov Chernukhin, wife of Putin's former deputy finance minister Vladimir Chernukhin (see Table 5). It was recently reported that Vladimir Chernukhin received \$8 million in 2016, which has been linked to “a politician facing US sanctions due to his closeness to the Kremlin” (BBC News, 2020).

### **Box 3: All Party Parliamentary Groups' funding**

Open Democracy recently revealed the extent to which the more than 750 All Party Parliamentary Groups (APPGs) are being used as a funnel for private sector lobbying, receiving a total of £13 million from private sector companies since 2018 (Hovhannisyan et al., 2022). APPGs are not required to publish their financial accounts, creating a channel for backdoor financial lobbying. A number of financial institutions feature among the wide range of firms that have donated significant sums to APPGs. For example, HSBC is the biggest donor to the China APPG, donating £35,500 to the group since 2018, and Visa and Revolut have paid large sums to the Fourth Industrial Revolution and Internet, Communications and Technology APPGs, which consider digital policy.

## 2. Lobbying

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Lobbying is a normal aspect of the democratic process, allowing policymakers to gain a range of views and information from different stakeholders. However, when certain interest groups gain privileged access to policymakers, and transparency over this access is lacking, lobbying can skew policy outcomes in an undemocratic and unjust manner. In certain cases, notably where policymakers act as paid advocates on behalf of private interests, lobbying is politically corrupt. The Owen Paterson scandal (see box 3) most recently threw this type of lobbying into public focus.

In this section, we examine the lobbying that the financial sector engages in independently, without paying policymakers to act as their advocates. To display how private finance directly accesses policymakers, this section details the sector's meetings with Treasury ministers, submissions to consultations, and financial resources.

### **Box 4: The Owen Paterson lobbying scandal**

A Guardian investigation in 2019 revealed that then MP Owen Paterson had lobbied on behalf of two firms that he worked for: Radox and Lynn's Country Foods. The former paid him a salary of £100,000, and the latter £12,000, all on top of the £82,000 MP salary. Kathryn Stone, the independent Parliamentary Commissioner for Standards, subsequently launched an investigation to determine the veracity of these allegations and establish whether Paterson had breached the Code of Conduct (Lawrence et al., 2021).

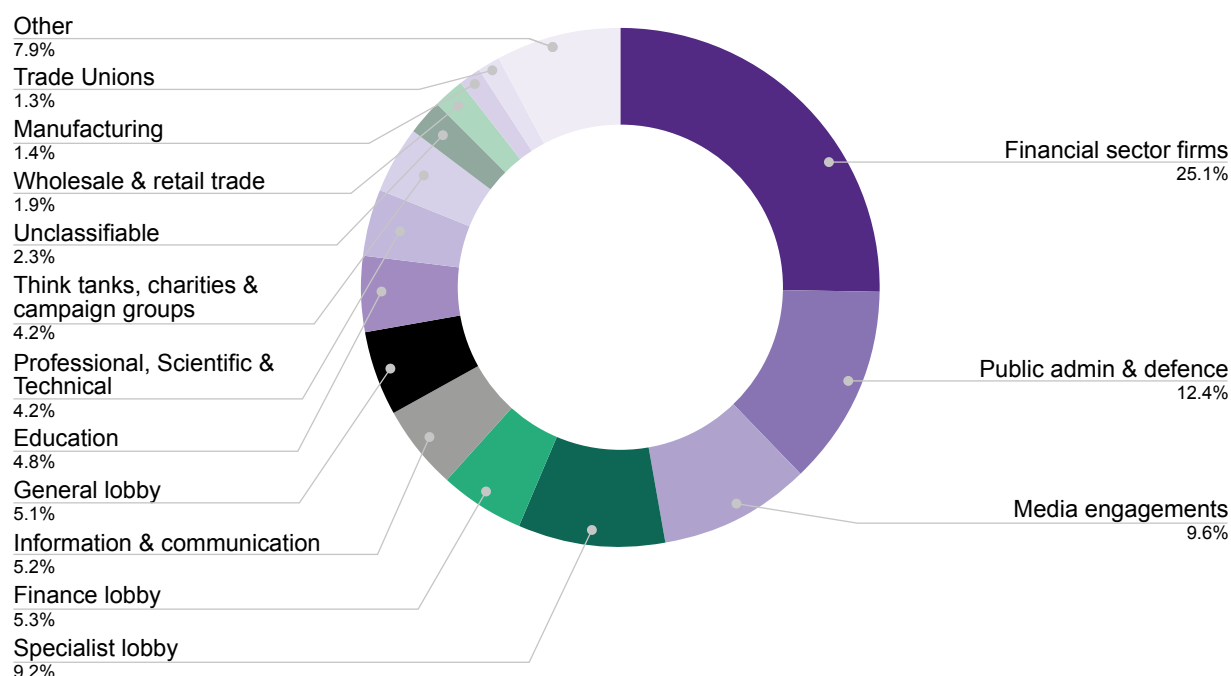
Stone found that Paterson had indeed consistently lobbied the government and the Food Standards Agency on behalf of these companies, repeatedly breaching the Code of Conduct's rule against paid advocacy. The House of Commons Committee on Standards concluded that Paterson's lobbying represented an egregious breach of the rules and recommended that he be suspended from Parliament for 30 days. Once the scandal erupted and dominated coverage of the Commons, the government attempted to change the rules to avoid suspending Paterson, until he resigned a few days later from his role as an MP (Lawrence et al., 2021).

## 2.1. Meetings with the Treasury

As the government's economic and finance ministry, the Treasury is a powerful player in financial policymaking. It sets mandates to the Monetary Policy Committee (MPC), the Financial Policy Committee (FPC), the Prudential Regulation Committee (PRC), and the Financial Conduct Authority (FCA), thereby defining the goals and overarching direction of financial policy.

Currently, the Treasury is responsible for drawing up the legislation that is shaping the post-Brexit future of financial services regulation in the UK. As shown in Figure 3, **close to one in three Treasury minister meetings throughout 2020 and 2021 were with financial sector firms and their lobbyists.**

**Figure 3:** Proportion of Treasury minister meetings per sector in 2020 and 2021.



Note: Classification of meetings is based on the standard industrial classification of economic activities (SIC), adapted to distinguish between different lobby groups. Multi-stakeholder meetings are classified according to which sector represents 50% or more of attendees. If attendees are split equally between two or more sectors, or if it is unclear from the Treasury's disclosure specifically who was in attendance, the meeting is listed as 'unclassifiable'. 'General lobby' refers to membership organisations that represent business interests as a whole across the country, such as the Confederation of British Industry. Meetings with multiple private sector attendees from different sectors where no one sector met the 50% threshold are also classified as 'general lobby'. 'Specialist lobby' refers to membership organisations that represent the interests of a particular sector, type of company, or region. 'Finance lobby' refers to membership organisations that represent the interests of the financial sector, as well as the City of London Corporation. In multi-stakeholder meetings, if finance lobby groups and individual financial sector firms combined meet the 50% threshold, the meeting is listed as a 'finance lobby' meeting. 'Other' refers to sectors that had fewer than 15 meetings with the Treasury.

Source: Authors' calculations based on Treasury departmental disclosures.

This amounts to a total of **296 meetings with institutions and individuals representing the interests of the financial sector**, far more than any other sector or group in the economy.

Treasury ministers only met with think tanks, charities and campaigns groups a combined total of 50 times, and trade unions just 15 times throughout 2020 and 2021, depriving civil society of the platform it needs to put forward a counter-perspective to industry interests (see figure 4).

**Figure 4:** Total number of Treasury minister meetings with different sectors in 2020 and 2021.



Source: Authors' calculations based on Treasury departmental disclosures.<sup>9</sup>

Taking a longer view, we can see that finance has dominated ministerial meetings throughout the past decade. For instance, lobby group UK Finance has had 217 meetings with the UK government between 2012 and 2021. Though the financial sector employs an estimated 1.1 million workers, this is significantly more access to ministers than is provided to the Trades Union Congress (TUC), who have only had 140 meetings over the same period, despite representing five times as many workers as UK Finance.<sup>10</sup> UK Finance has therefore had nearly 20 meetings per 100,000 workers represented — eight times the TUC's at just 2.5 meetings per 100,000 workers.

The numbers are even more stark when looking at the biggest banks. Since 2012, HSBC has had 481 meetings with the UK government (including 162 with the Treasury), and Barclays 479 (139 of which were with the Treasury).

<sup>9</sup>. Departmental disclosures state the dates of meetings, who was in attendance, and what was discussed. Explanations of the subject of discussion, however, are very vague, often limited to a sentence fragment describing the perceived purpose of the meeting. For many of the meetings with financial institutions, for example, the disclosures merely state "meeting to discuss financial services" or "to discuss UK/global economy and Covid-19". No further details are provided.

<sup>10</sup>. Data obtained using Transparency International UK's Open Access database, searching for all variations of Trades Union Congress.

## 2.2. Dominating consultations

Consultations provide stakeholders with opportunities to share their policy preferences and expertise with regulators. A study of over 20,000 responses to 562 policy consultations at national and international levels between 1996 and 2013 shows that business interests (including the financial sector) accounted for 89% of responses to consultations concerning finance, compared to 78% of responses to consultations on agriculture, 78% of responses on health, and 84% responses on energy (Pagliari and Young, 2014). Therefore, while these findings suggest that consultations in general have not been very effective in gathering a wide range of views from stakeholders, business interests dominate finance-related consultations more than consultations in most other sectors.

**Table 6:** *Percentage of respondents to consultations in different regulated areas 1996-2013.*

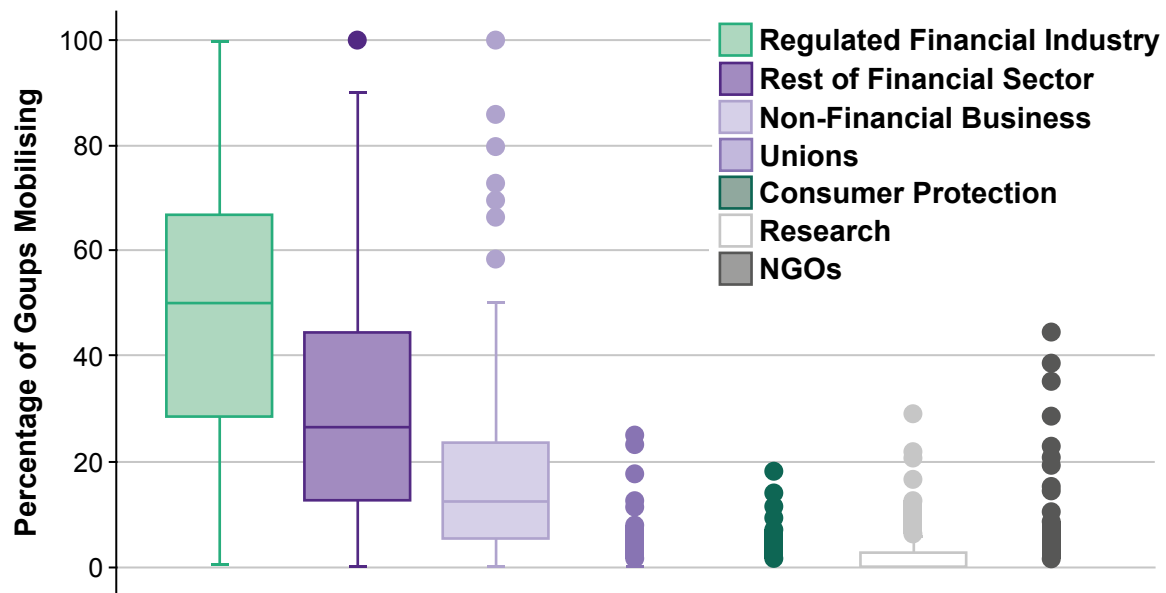
Respondent	Agriculture	Energy	Telecom	Health	Finance
Business groups	78.41	84.02	93.14	78.03	89.07
Trade Unions	1.82	1.13	1.06	0.30	1.24
Consumer protection	0.62	0.88	0.92	2.03	0.95
Research institutions	4.80	3.82	1.41	9.08	2.97
NGOs	14.36	10.15	3.47	10.57	5.76
No. of letters coded	3,566	3,191	1,414	2,086	10,965

Source: Pagliari and Young (2014).

In a later study, focusing specifically on financial regulatory consultations, analysis of close to 12,000 responses to 250 consultations carried out between 1999 and 2013 shows further evidence of business interests dominating finance-related consultations (Pagliari and Young, 2016). Figure 5 shows that for-profit firms submit the vast majority of responses, while unions, consumer protection groups, academic researchers, and NGOs participated very little in financial regulatory consultations.



**Figure 5:** Distribution of groups that responded to financial regulatory consultations 1999-2013.

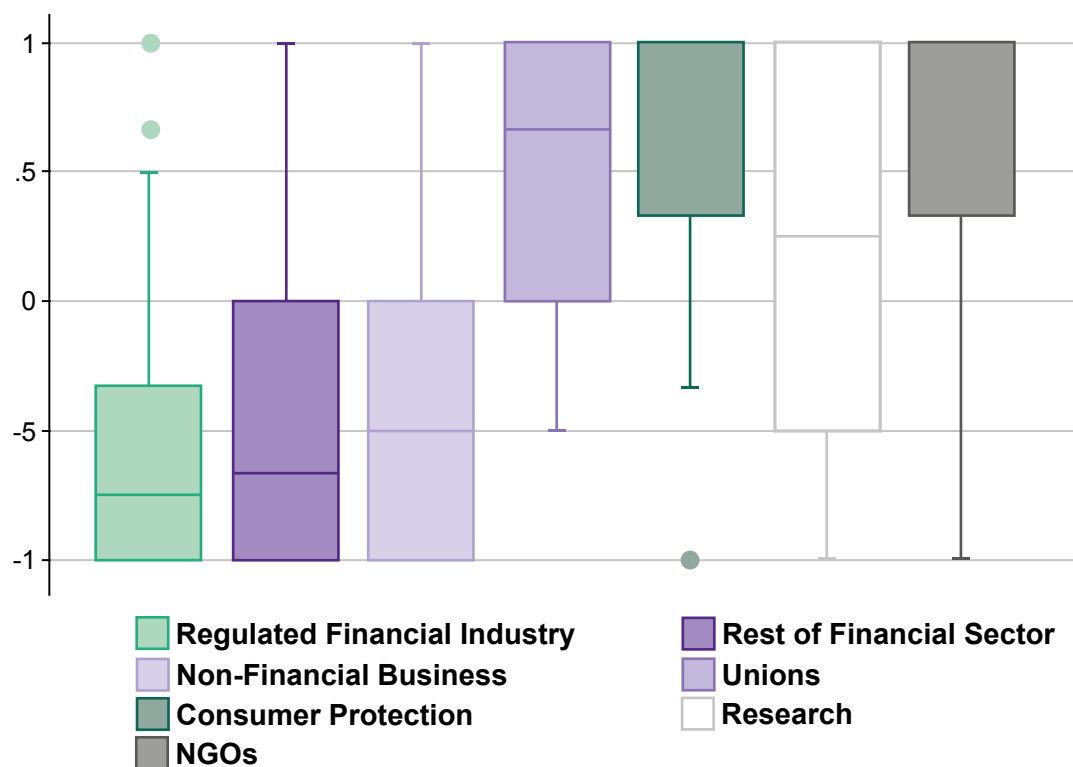


Note: This data is presented using standard boxplots. For unions, consumer protection, and NGOs, the lack of any visible box indicates that in the vast majority of consultations, 0% of responses came from these groups. The dots are outliers in the data set.

Source: Pagliari and Young (2016).

Analysing a sample of their dataset, Pagliari and Young (2016) also find that policy preferences diverge significantly between these two groups. The business interests dominating consultations tend to advocate for less stringent regulation, while non-business interests tend to advocate for more stringent regulation. Figure 6 shows this divergence in preferences.

**Figure 6:** Distribution of preferences across groups towards financial regulation.



Note: Values closer to one indicate that a group wanted more stringent regulation, while values closer to negative one indicate a preference for less stringent regulation.

Source: Pagliari and Young (2016).

Despite the low representation of civil society groups in consultation submissions, NGOs have begun contesting City of London power following the financial crisis, becoming a “more sustained presence on macro-structural issues” (Baker and Wigan, 2017; p.185). No amount of strategising and coordination, however, can make up for the deep asymmetry of resources between the financial sector and civil society, as highlighted in the following subsection 2.3.

### 2.3. The finance lobby’s resources

The figures presented above are likely only the tip of the financial sector’s lobbying iceberg. Current disclosure requirements suffer from multiple gaps and weak enforcement. Ministerial meetings, for instance, have not been recorded in departmental disclosures on multiple occasions. Transparency International UK provide two recent examples: “there is no official public record of either Robert Jenrick’s discussion with Richard Desmond over the Westferry development at a party fundraiser, nor Matt Hancock’s meeting with David Cameron over drinks concerning Greensill’s Earnd app for the NHS” (Transparency International UK, 2021).

Even more concerning than the failures of existing registers and disclosures is the sheer amount of lobbying that isn't covered by any disclosure requirements whatsoever. The Register of Consultant Lobbyists provides little information and excludes in-house lobbyists, who carry out the vast majority of lobbying in the UK. Therefore, there is a severe lack of transparency over the extent to which lobbyists are meeting with MPs, peers, and regulators, and the amount of money private finance is spending on lobbying.

In 2012, the Bureau of Investigative Journalism estimated that the lobbying budget of the UK financial sector for politicians and regulators to be £93 million a year, used to pay the salaries of over 800 people with the aim of gaining access to policymakers (The Bureau of Investigative Journalism, 2012). This estimate involved many assumptions and imputations, but was the best available measure given the lack of any comprehensive register for lobbyists in the UK.

**We find that there are at least 18 finance trade associations and industry groups with turnovers above £1 million. These 18 groups boasted a combined annual turnover of more than £145 million in 2020/21, providing considerable spending power for the sector to lobby for its interests.** This is in addition to the lobbying resources of individual financial institutions, as well as the City of London Corporation, which itself plays a key role in lobbying for the interests of the financial services sector, and has its own £2.2 billion 'City's Cash' fund it can draw from for such activities (Lucas, 2013). £115.5 million of the City's Cash fund was spent in 2020/21, including more than £20 million on its Policy and Resources Committee, which is responsible for promoting the City of London as "the world's leading international financial and business centre" (Policy and Resources Committee, 2022a). Its membership is derived from the financial sector and chaired by Catherine McGuinness, who is also on the board of lobby group TheCityUK (Policy and Resources Committee, 2022b).

Contrary to the UK, companies in the EU are required to disclose their spending on lobbying activities. In 2016, Corporate Europe Observatory found that the total declared spend of the UK private financial actors on lobbying EU policymakers was €34 million (Corporate Europe Observatory, 2016). This figure covers 50 prominent financial institutions and lobby groups focused on influencing EU financial regulation. In comparison, NGOs and trade unions had a much lower lobbying budget. The financial lobby generally outspends public interest lobbies within the EU by a factor of more than 30 (Corporate Europe Observatory, 2014).

In the lead up to the financial crisis, this imbalance between civil society and the financial sector's lobbying power went largely unchecked. Financial regulation was deemed to be within the sphere of "quiet politics", where the City's framing of itself as indispensable was ultimately successful (Baker and Wigan, 2017). However, following the financial crash, public support for the financial sector plummeted, causing financial regulation to become more politically contested. In Europe, a cross party group of 22 members of the European parliament (MEPs) recognised that financial regulation being so heavily shaped by the industry lobby was antidemocratic. Subsequently, in 2011, the MEPs established the international NGO Finance Watch to counteract this lobby, with the aim to "make finance serve society".

The UK seems to have moved in the opposite direction: policymakers have doubled down on support for the overt lobbying power of the City. TheCityUK was created in 2010, following a joint HM Treasury and City report, with the aim to “demonstrate the importance of the UK financial service industry”, and a formal link to HM Treasury’s strategy group (Baker and Wigan, 2017). TheCityUK has become a fully embedded partner to the Treasury on several workflows. Within the UK there has been an emergence of a diverse range of voices engaging in financial policymaking. However, there is still no institutional mechanism of access to UK financial policymakers for civil society which is equivalent to TheCityUK.

Overall, while the available data already shows that financial institutions are deeply embedded in UK policymaking circles, a lack of transparency — particularly over in-house lobbyists’ activities — prevents us from gaining a full picture of the extent to which the lines between policymakers and private finance are being blurred.

## 3. Revolving Doors

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This section analyses the extent of revolving doors between private finance and the two most powerful institutions responsible for financial policy: the Bank of England and the Treasury. 'Revolving doors' refer to the movement of personnel between financial firms that are regulated by public bodies, and the institutions that create and enforce this regulation. This movement creates several risks.

The first risk is cognitive capture: regulators that have previously worked in private financial institutions have been socialised within a specific set of ideological frameworks and personal networks (Dal Bó, 2006). If regulatory bodies are populated with such a lack of diversity, it becomes extremely challenging for these institutions to maintain an unbiased view of the financial sector. Regulators can then become willfully blind to seemingly obvious risks, such as the herdlike belief in an infallible housing market prior to the global financial crisis in 2008 (Bénabou, 2013).

Second, revolving doors result in conflicts of interest: the knowledge that regulators can move into highly remunerated roles in financial firms following — or during — their time in the public sector can create incentives for such individuals to act favourably towards this sector. Once in such a role, former public servants can even aid the lobbying process by sharing insider knowledge and professional networks (Wirsching, 2018).

Finally, revolving doors between lobbyists and regulators obfuscates the inherently political nature of financial regulation. Recruitment processes to regulatory bodies often favour actors that have moved frequently between the public and private spheres, and in many cases require experience in finance at a minimum (Chalmers et al, 2021). Technical expertise gained as governmental, legal or public affairs advisors within private financial firms may make prospective regulators attractive candidates (Sim, 2021). However, excessive recruitment from this pool may inhibit finance ministers from representing the interests of other stakeholders, and Bank of England officials from adequately fulfilling their primary and secondary objectives. Financial firms only form one interest group, and nearly always push against regulation which constrains their actions (see section 2.2). When deeply intertwined with this interest group, financial policymakers may lose touch with their role as political mediators, which must make and enforce difficult decisions in the public interest.<sup>11</sup>

### 3.1. Revolving doors with the Treasury

In 2020, the Financial Times revealed just how influential former Ministers and Prime Ministers can be for financial firms' lobbying interests. It was reported that former Prime Minister, David Cameron, as an adviser to Greensill Capital, earning \$40,000 a day, lobbied ministers and civil servants in the Treasury on 56 separate occasions in an attempt to secure access to government-run emergency lending schemes during coronavirus (Smith and Pickard, 2021).

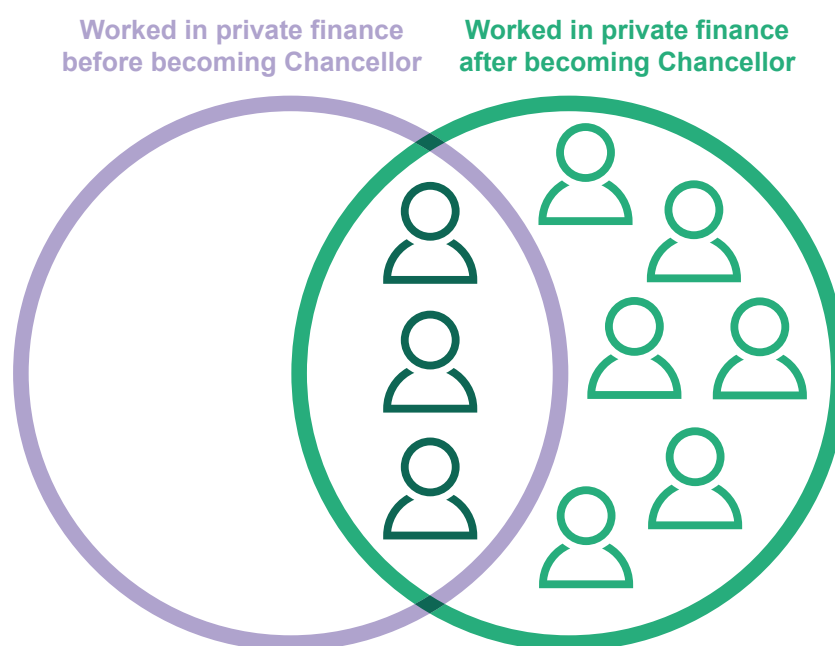
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<sup>11</sup>. As with section 1, some financial sector firms are excluded from the data in section 3. Positions with not-for-profit financial firms are excluded, as are those with charities engaged in financial activity and minor companies that serve as personal financial arrangements. Interests and paid positions in a wide range of for-profit financial sector firms are included, such as building societies, mutuals, trading platforms, sovereign wealth funds, and investment consultancy firms.

Subsequently, the Treasury Select Committee found in their report that the former Prime Minister was “acting as a representative of Greensill, with a very significant personal economic interest in the firm”. Whilst Mr Cameron has been widely recognised to have been using his networks to lobby for his own personal interests, this “did not break the rules governing lobbying by former ministers”, showcasing just how weak the rules are (Treasury Committee, 2021b). It is, therefore, unsurprising that this is not a one off event. Many former Prime Ministers and Ministers use their previous positions to gain lucrative positions advising financial firms. For instance, once leaving office, former Labour Prime Minister Tony Blair became a senior adviser to JP Morgan Chase & Co, with a reported salary of £2 million (Helm and Waterfield, 2008).

Within the locus of financial policymaking power, the Treasury, we find that Chancellors of the Exchequer have consistently followed a similar path. Strikingly, **every single Chancellor who has held office in the past 40 years has subsequently gone on to take up employment in private finance** (see Figure 7).

**Figure 7:** Proportion of former UK Chancellors who have worked in private finance 1983-2020.



Source: Information collated from biographies on personal websites, Register of MP's Financial Interests, Register of Lords' Interests, ACoBA correspondence, biographies of employees on financial institutions' websites, The Guardian, and Companies House.

As the Chancellor sets the mandate that prudential regulators at the Bank of England must follow, HM Treasury has significant power over the direction of financial regulation. Well-established revolving doors between private finance and the office of the Chancellor result in significant blind spots in financial regulation. In cases where a Chancellor has worked in private finance before entering office, as three out of nine in the past 40 years have, it is likely that they were socialised by these institutions and maintained their former colleagues' strong preference for deregulatory policies (Dal Bó, 2006). Chancellors who go on to work in private finance after being in office (as all Chancellors in our sample did) may have less incentive to pursue stringent regulation whilst in office.

Research shows that across the OECD, ministers are more likely to be hired by financial entities following their tenure if they pursue liberalising reforms during their time in office (Wirsching, 2018). These revolving doors contribute to two distinct forms of moral hazard. Firstly, the close links between private finance and the Treasury promote a belief within the financial sector that it will not have to bear the full costs of the risks of deregulation due to the sector's privileged access to government bailouts. Secondly, the potential for finance ministers to move into the financial sector following their political career creates a viable exit route in the event of a crisis, also mitigating the personal risks from deregulation. Ultimately, greater risk taking from both finance ministers and the financial sector is incentivised.

Table 7 below shows the positions that Chancellors of the Exchequer held in the for-profit financial sector prior to and following their time in office. The 40 year time period since the 1980s has been one of considerable financial deregulation, beginning with the "Big Bang" under Nigel Lawson. The Big Bang changed the structure and organisation of the London Stock Exchange to expand membership to anyone who wished to join, turning the City of London into an international financial centre (Bellringer et al, 2014).

**Table 7: Paid positions held in the for-profit financial sector by Chancellors of the Exchequer 1983-2021 .**

Name of Chancellor	Years In Office	Financial Sector Employer Before Office	Financial Sector Employer After Holding Office
Rishi Sunak	2020-Present	Goldman Sachs	[In office at the time of publication]
		Theleme Partners	
		The Children's Investment Fund Management	
		Catamaran Ventures	
Sajid Javid	2019-2020	Deutsche Bank	JP Morgan
		Chase Manhattan Bank	
Philip Hammond	2016-2019	N/A	Copper.co
			OakNorth
			Buckthorn Partners
			Kuwait Investment Office London
			Purl Partnership Limited

*Continued*

Name of Chancellor	Years In Office	Financial Sector Employer Before Office	Financial Sector Employer After Holding Office
George Osborne	2010-2016	N/A	BlackRock Investment Institute
			Exor NV
			Robey Warshaw
Alistair Darling	2007-2010	N/A	Morgan Stanley
Gordon Brown	1997-2007	N/A	Pimco
Kenneth Clarke	1993-1997	N/A	Centaurus Capital
Norman Lamont	1990-1993	Rothschild Asset Management	RAB Capital
John Major	1989-1990	Price Forbes	Credit Suisse
		District Bank	Global Infrastructure Partners
		Standard Bank	The Carlyle Group
Nigel Lawson	1983-1989	N/A	Oxford Investment Partners

Source: Information collated from biographies on personal websites, Register of MP's Financial Interests, Register of Lords' Interests, ACoBA correspondence, biographies of employees on financial institutions' websites, The Guardian, and Companies House.

### Box 5: How revolving doors affect access to the UK government

On average, financial firms that employed a former UK Chancellor increased their number of meetings with government departments and ministers by 59%.<sup>12</sup> If the aim of these firms is to improve their access to the UK government, maintaining revolving doors between Chancellors and private finance appears to be a successful strategy.

Privileged access provided by revolving doors has enabled some of the world's largest asset managers and investment banks to more effectively lobby the UK government. With \$10 trillion (USD) in assets under its management, BlackRock is often referred to as the company that "owns the world", due to its significant holdings in almost every sector of the economy. Despite only employing an estimated 3,483 workers in the UK, BlackRock had 128 meetings with the UK government between 2012 and 2021.

<sup>12</sup> Author's calculations based on the Transparency International UK Open Access database, which covers government meetings from the period 01/01/2012- 29/12/2021.



Just 40 of these meetings took place from 2012 to the beginning of 2017 (an average of eight a year), before BlackRock employed former Chancellor George Osborne as a 'political consultant', paying him a £650,000 salary for just one day a week (£13,000 a day). Since Osborne stepped through the revolving door, BlackRock's access to the UK government has increased dramatically, with the number of meetings the firm has been able to secure increasing by 100% between 2017 and 2021, to an average of 16 a year.

Following a worryingly similar trend, as shown in Section 1.1. JP Morgan employed Sajid Javid as a Senior Adviser for almost a year from 2020-2021. Prior to this pairing, JP Morgan had an average of 11 meetings per year, which increased to an average of 36 meetings per year during Mr Javid's employment: a 224% increase. After leaving office as the Chancellor, Alistair Darling also became employed by a US investment banking giant when he was elected to the Board of Directors of Morgan Stanley in 2016. Subsequently, Morgan Stanley has increased its number of meetings with government departments from 4 to over 12 a year: a 208% increase.

The increase in meetings that financial firms are able to access while employing a former Chancellor is unlikely to be due to random chance. Former Chancellor, Lord Hammond of Runnymede, was advised by ACoBA prior to becoming a non-executive director on OakNorth Bank's Advisory Board to not use contacts acquired as Chancellor to gain privileged access to the Government for the bank, to secure business or to influence policy (Advisory Committee on Business Appointments, 2021). However, whilst still employed by OakNorth, Lord Hammond contacted a member of HM Treasury directly to promote the Bank's pro bono services, and was determined to have breached lobbying rules by ACoBA. OakNorth increased its number of government meetings by 200% in the year and a half in which the former Chancellor had a paid role with the bank.

Revolving doors between the public and private sectors are, of course, not limited to the realm of finance. In 2016, the Daily Mail revealed that of the 371 ministers that have filed applications to ACoBA since 2008, two thirds took roles in the field they were responsible for regulating while in office (Greenhill, 2016). More recently, the Guardian found that half of all ministers in the past two governments run by May and Johnson took roles in a private sector that fell within their ministerial remit. In many cases, these former ministers are still MPs and have taken on these roles as second jobs (Mason and Stewart, 2021).

In a recent report, the Committee on Standards in Public Life (CSPL) argued that the revolving door is an issue of greater concern presently relative to 25 years ago, when rules on business appointments were first established, for two reasons. First, senior civil servants and ministers leave office at younger ages than they used to. Second, government outsourcing has increased significantly, which heightens the "risk that private companies may seek to gain advantage through employing a former public office holder" (The Committee on Standards in Public Life, 2021).

### 3.2. Revolving doors with the Bank of England

Central banks are powerful and inherently political institutions whose policy decisions have significant distributional and systemic implications. Existing research shows that central bankers' career backgrounds and expectations feed into those decisions: monetary policymakers that have experience in private finance tend to vote for higher interest rates during their time at central banks (Adolph, 2013).

Our own research finds that **72.5% of the 80 past and present Bank of England policymakers have worked at private financial companies**.<sup>13</sup> Although this figure falls to 63.6% when examining the current 22 policymakers sitting across the three committees assessed, **18.2% of all present policymakers continue to hold paid positions in the private financial sector alongside their decision-making positions at the Bank of England**.

#### Box 6: Bank of England committee members' shareholdings

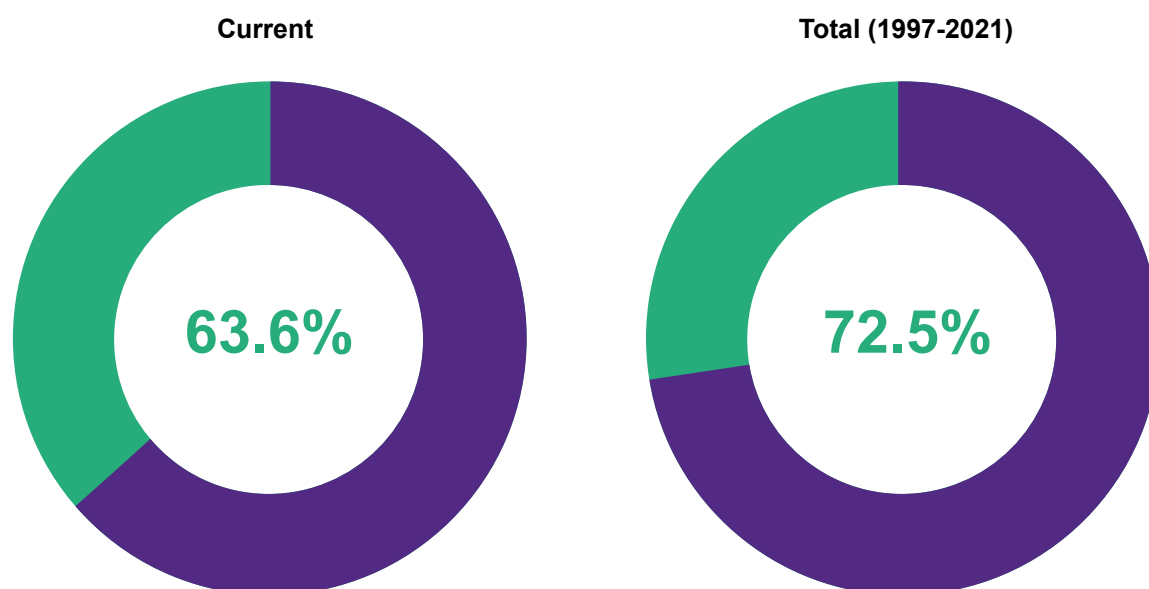
Upon their public appointments, three committee members, Tanya Castell, Huw Pill and Nikhil Rathi, disclosed shareholdings in financial firms retained from previous paid positions. The firms were UBS, Goldman Sachs and the London Stock Exchange Group plc (LSEG), respectively. Castell was the only one to give details of their shares' value ("less than £10,000") and stated an intention to "sell these when possible." (Bank of England, 2021a). Pill told the Treasury Select Committee that the Bank of England and Goldman Sachs were in the process of agreeing how to "unwind" his shares "as soon as feasible", a process which will be completed in January 2023 (Bank of England, 2021b), which means that Pill is voting on monetary policy decisions while owning shares in Goldman Sachs. Rathi declared his shares would be sold prior to starting his term at the FCA in October 2020, and that the net proceeds would be released to him by June 2021, with the possibility of "time-limited clawback" if his former employee subsequently found him liable for any negligence (Treasury Committee, 2020).

At the Bank of England's US counterpart — the Federal Reserve — officials were pressured to sell their stocks late last year over conflict of interest concerns. The officials in question, Boston Fed President, Eric Rosengren, and Dallas Fed President, Robert Kaplan, both highlighted that their investments were aligned with the Federal Reserve's ethics rules, indicating that external pressure was responsible for their decisions (Marte, 2021).

<sup>13</sup>. A total of 80 individuals were assessed, each of whom has been a member of one or more of the following: Monetary Policy Committee (MPC), Financial Policy Committee (FPC) or Prudential Regulation Committee (PRC) (formerly known as the Board of the Prudential Regulation Authority).

The significance of such conflicts of interest cannot be understated: this goes beyond the risks of cognitive capture from having previously worked in private finance, or acting favourably towards the sector because of future career prospects. These individuals vote on policies that directly impact their own income, a conflict of interest not permitted for other politically independent public policymakers such as civil servants. The Bank of England’s justification for allowing committee policymakers to “have an existing interest, or acquire a new interest, which may give rise to an actual or potential conflict of interest and/or duty,” is that they are independent members, employed by the Bank on a part-time basis and “appointed on the basis of having knowledge or experience which is likely to be relevant to the Committee’s functions” (Bank of England, 2019). This self-justification acknowledges, but fails to address, the risks to the public interest posed by such conflicts of interest, which are the precise reason protocols such as the Business Appointment Rules apply to other public servants.

**Figure 8:** *Percentage of Bank of England policymakers that have worked in the private financial sector 1997-2021.*



Note: “Bank of England policymakers” refers to individuals that have been members of one or more of the following committees during the specified time period: the Monetary Policy Committee, the Financial Regulation Committee, and the Prudential Regulation Committee (formerly known as the Board of the Prudential Regulation Authority). “Current” refers to the 22 individuals (excluding Treasury representatives) who are presently sitting on these three committees. “Total” refers to the 80 individuals (likewise excluding Treasury representatives) who have sat on those three committees since 1997, when the first of the three was established.

Source: Bank of England Annual Reports and Accounts from 1997-2021 were used to establish membership. The interests of individual members were established from biographies and CVs published on the Bank of England’s website, LinkedIn profiles, and biographies published by members’ other former and/or current employers.

Regarding the extent to which revolving doors between the public and private sectors exist for Bank of England policymakers, our research found that **over three quarters (75.8%) of the 58 former committee members have been employed by financial sector firms**. Over half (53.4%) had done so before joining the Bank of England, and more than half (53.4%) proceeded to work in this sector after leaving the Bank.

The argument in defence of hiring central bankers from private financial firms leans heavily on the belief that they will need experience and technical expertise from inside this sector to effectively regulate it. However, relying heavily on a specific economic sector for technical expertise means the interests of that sector are overrepresented in the policymaking process. There are plenty of other sectors, such as academia, the civil service and civil society, from which technical expertise can be gained.

Private sector experience is non-essential to being a successful central banker. Only one of the four Bank of England governors whose terms fell within the 25-year timeframe examined in this report (including the current governor) had a financial sector background. However, all three former governors did go on to roles in private finance. This highlights the second risk posed by the revolving door: that the prospect of future private sector employment may elicit decisions favourable to that sector whilst in public service. While it could be argued that individuals with a background in private finance would naturally resume employment in this field once their term at the regulator was finished, this fails to explain our finding that **almost a quarter (22.4%) of former committee members who went on to employment in private finance after leaving the Bank had never worked in this sector before.**

#### Box 7: Insufficient cool off periods

In 2018, sitting PRC member David Thorburn ended his term several months early to join the board of Barclays UK and chair the risk committee of Barclays' retail division (Kleinman, 2018a). Whilst the Bank of England noted that Thorburn was "serving a three-month restriction period before taking up any outside commitment that would not have been permitted to a serving member of the PRC," three months was clearly not a substantial enough period of time to deter Thorburn from lining up lucrative employment with a firm he was responsible for regulating (Bank of England, 2018).

More recently, the UK's most senior civil servant responsible for financial policy also seamlessly transitioned into a high-paying role at Barclays. The Treasury's Director General for Financial Services, Katharine Braddick, who was previously Director of Prudential Policy at the Bank of England and Head of Banking Policy at the Financial Services Authority, resigned from her role in 2021 to take up employment as Head of Strategic Policy and advisor to the CEO at Barclays (Kleinman, 2018b). Despite Braddick's long public sector career dealing with sensitive information and policy related to banks like Barclays, the Treasury recommended a mere three month waiting period, and ACoBA recommended a six month waiting period before taking up this employment (Advisory Committee on Business Appointments, 2022).

### 3.2.1. Monetary Policy Committee

The policies presided over by the Bank of England's Monetary Policy Committee (MPC) — tasked primarily with keeping Consumer Price Inflation (CPI) close to its 2% target — include setting the base interest rate, issuing forward guidance on future levels of interest rates, and the purchasing of government bonds and other financial assets through quantitative easing (QE).<sup>14</sup>

Since its inception in 1997, 46 people have sat on the MPC, including the nine current members. Our research found that four of the nine current members (44.4%) were previously employed by financial firms they then went on to set interest rates for, and 29 (63%) of the total 46 past and present members have worked at private financial companies.

21 of the 37 former MPC members (56.7%) moved into private finance after leaving the Bank of England, while only 15 (40.5%) had prior experience in the sector. This indicates that policymakers are arranging private sector employment in the financial sector whilst on the public payroll, which risks incentivising them to act favourably towards their future employers.

**Table 8:** Positions held in private finance by Monetary Policy Committee members 1997-2021.

Name	Dates served on MPC	Employed before and/or during MPC membership	Employed after MPC membership	Financial firm
Andrew Bailey	2020 -	✗	Current	
Ben Broadbent	2011 -	✓	Current	Goldman Sachs
Sir Jon Cunliffe	2013 -	✗	Current	
Jonathan Haskel	2018 -	✗	Current	
Dr Catherine L Mann	2021 -	✓	Current	Citibank; Chase Manhattan Bank
Huw Pill	2021 -	✓	Current	Goldman Sachs
Sir Dave Ramsden	2017 -	✗	Current	
Michael Saunders	2016 -	✓	Current	Citigroup; Greenwell Montagu (now part of HSBC)

*Continued*

14. For a detailed explanation of QE and how it affects financial markets, see Kazi and Macfarlane (2022).

Name	Dates served on MPC	Employed before and/or during MPC membership	Employed after MPC membership	Financial firm
Silvana Tenreyro	2017 -	✗	Current	
Gertjan Vlieghe	2015 - 2021	✓	✓	Element Capital; Brevan Howard Asset Management; Deutsche Bank; JPMorgan (Euroclear)
Andy Haldane	2014 - 2021	✗	✗	
Mark Carney	2013 - 2020	✓	✓	Brookfield Asset Management; Stripe; PIMCO; Goldman Sachs
Ian McCafferty	2012 - 2018	✓	✓	London Wall Partners LLP; Baring Securities; Natwest Markets
Charlotte Hogg	2017 - 2017	✓	✓	Visa Europe; McKinsey & Company; Morgan Stanley' Goldfish Bank; Experian UK; Santander
Nemat (Minouche) Shafik	2014 - 2017	✗	✗	
Kristin Forbes	2014 - 2017	✓	✗	Morgan Stanley
Martin Weale	2010 - 2016	✗	✗	
Adam Posen	2009 - 2012	✓	✗	Deutsche Bank
David Miles	2009 - 2015	✓	✗	Morgan Stanley; Merrill Lynch
Paul Fisher	2009 - 2014	✗	✗	
Spencer Dale	2008 - 2014	✗	✗	

*Continued*

Name	Dates served on MPC	Employed before and/or during MPC membership	Employed after MPC membership	Financial firm
Andrew Sentance	2006 - 2011	✗	✓	Conscience Venture Capital; PwC
Tim Besley	2006 - 2009	✗	✗	
David Blanchflower	2006 - 2009	✗	✗	
Sir John Gieve	2006 - 2009	✗	✓	VocaLink; CLS Group; Morgan Stanley; GLG Partners
David Walton	2005 - 2006	✓	✗	Goldman Sachs
Rachel Lomax	2003 - 2008	✗	✓	HSBC Holdings
Richard Lambert	2003 - 2006	✗	✗	
Sir Andrew Large	2002 - 2006	✓	✓	Marshall Wace; Axis Capital; Orion Bank; Swiss Bank Corporation; UK Stock Exchange; Lloyd's; Large, Smith & Walter; Euroclear; Barclays plc
Paul Tucker	2002 - 2013	✗	✓	Swiss Re
Marian Bell	2002 - 2005	✓	✓	Zurich Financial Services; Alpha Economics; Royal Bank of Scotland (RBS); Williams & Glyn's Bank (part of RBS)
Kate Barker	2001 - 2010	✓	✓	Yorkshire Building Society; Credit Suisse; Electra Private Equity plc; Man Group plc
Charles Bean	2000 - 2014	✗	✗	

Continued

Name	Dates served on MPC	Employed before and/or during MPC membership	Employed after MPC membership	Financial firm
Stephen Nickell	2000 - 2006	✗	✗	
Christopher Allsopp	2000 - 2003	✗	✗	
Sushil Wadhvani	1999 - 2002	✓	✓	QMA Wadhvani; Wadhvani Asset Management; Caxton Associates; Goldman Sachs; Tudor Investment Corporation
Sir John Vickers	1998 - 2000	✗	✗	
Sir Alan Budd	1997 - 1999	✓	✓	Credit Suisse First Boston; IG Group; Barclays Bank
David Clementi	1997 - 2002	✓	✓	WorldFirst; Ruffer LLP; Virgin Money; Prudential plc; Kleinwort Benson
DeAnne Julius	1997 - 2001	✗	✓	Jones Lang LaSalle; Fathom Financial Consulting Ltd; Lloyds Bank
Mervyn King	1997 - 2013	✗	✓	Citigroup
Ian Plenderleith	1997 - 2002	✗	✓	Morgan Stanley; BH Macro; Sanlam; BMCE Bank International; Europe Arab Bank
Charles Goodhart	1997 - 2000	✗	✓	Morgan Stanley
Willem Buiter	1997 - 2000	✗	✓	Citigroup; Goldman Sachs International

*Continued*



Name	Dates served on MPC	Employed before and/or during MPC membership	Employed after MPC membership	Financial firm
Howard Davies	1997 - 1997	✓	✓	Inigo Ltd; Natwest Group; Prudential plc; Millennium Management LLC; Phoenix Group; Morgan Stanley; McKinsey & Company; National Westminster Bank (Natwest)
Sir Edward George	1997 - 2003	✗	✓	N M Rothschild & Sons Ltd

Source: Bank of England Annual Reports and Accounts from 1997-2021.

### 3.2.2. Financial Policy Committee

The establishment of the Financial Policy Committee (FPC) was announced in 2010, with the first meeting of the Interim FPC in June 2011. Its primary function is to maintain financial stability by monitoring the UK economy to identify systemic risks. The FPC was officially established in 2013, and has since had 30 members in total, including interim members.

**Of the 12 current members of the FPC, seven (58.3%) have previously worked at private financial companies, including two who still do.<sup>15</sup> This is slightly below the average of the total FPC members, with 21 (70%) having worked in private finance at some point in their career.**

Amongst the 18 former members, 50% went on to work in private finance after working at the Bank of England (27.8% had not worked in private finance previously), leaving this committee exposed to all the risks discussed thus far: cognitive capture from having previously worked in private finance, acting favourably towards the sector because of future career prospects, and conflicts of interest arising for sitting members who remain stakeholders in the sector they regulate.

<sup>15</sup> Charles Roxburgh was excluded from the data, because as a Treasury representative, he does not have voting power on the committee.

**Table 9: Positions held in private finance by Financial Policy Committee members, 2011-2022.**

Name	Dates served on FPC	Employed before and/or during FPC membership	Employed after FPC membership	Financial firm
Andrew Bailey	2016 -	✗	Current	
Colette Bowe	2019 -	✓	Current	Electra Private Equity plc; Morgan Stanley; Goldfish Bank; Axa Investment Managers; Yorkshire Building Society
Sarah Breeden	2021 -	✗	Current	
Ben Broadbent	2014 -	✓	Current	Goldman Sachs
Sir Jon Cunliffe	2013 -	✗	Current	
Jonathan Hall	2020 -	✓	Current	Eisler Capital; Goldman Sachs; Credit Suisse Financial Products
Anil Kashyap	2016 -	✗	Current	
Sir Dave Ramsden	2017 -	✗	Current	
Nikhil Rathi	2020 -	✓	Current	London Stock Exchange (LSE) plc
Elisabeth Stheeman	2018 -	✓	Current	Edinburgh Investment Trust Plc ( <i>current</i> ); Asian Infrastructure Investment Bank ( <i>current</i> ); Aareal Bank AG ( <i>current</i> )
Carolyn Wilkins	2021 -	✓	Current	Intact Financial Corporation ( <i>current</i> )

*Continued*

Name	Dates served on FPC	Employed before and/or during FPC membership	Employed after FPC membership	Financial firm
Sam Woods	2016 -	✓	Current	McKinsey & Co.
Alex Brazier	2015 - 2021	✗	✓	BlackRock
Donald Kohn	2013 - 2021	✓	✗	AlliancePartners
Christopher Woolard	2020 - 2020	✗	✗	
Mark Carney	2013 - 2020	✓	✓	Brookfield Asset Management; Stripe; PIMCO; Goldman Sachs
Martin Taylor	2013 - 2020	✓	✗	Oxford Investment Partners (OXIP); Goldman Sachs; Barclays
Richard Sharp	2013 - 2019	✓	✗	SW7 Asset Management (UK) LLP; Roundshield Partners LLP; DII Capital UK Adviser LLP; Goldman Sachs; JPMorgan
Dame Clara Furse	2013 - 2016	✓	✓	HSBC UK; Nomura Holdings Inc.; Legal & General Group plc; Nomura Europe's FSA regulated entities; Fortis SA; Euroclear SA; LCH Clearnet SA; LIFFE; London Stock Exchange Group; Credit Lyonnais Rouse; UBS; Dean Witter Reynolds Overseas Ltd

Continued

Name	Dates served on FPC	Employed before and/or during FPC membership	Employed after FPC membership	Financial firm
Tracey McDermott	2015 - 2016	✗	✓	Standard Chartered
Martin Wheatley	2012 - 2015	✗	✓	Jigsaw XYZ; Oasis Management
Charles Bean	2011 - 2013	✗	✗	
Andy Haldane	2011 - 2013	✗	✗	
Mervyn King	2011 - 2013	✗	✓	Citigroup
Paul Tucker	2011 - 2013	✗	✓	Swiss Re
Alastair Clark	2011 - 2013	✓	✗	LIFFE Administration and Management
Michael Cohrs	2011 - 2013	✓	✗	EQT; Goldman Sachs; S.G. Warburg & Co Ltd; Deutsche Bank AG
Paul Fisher	2011 - 2013	✗	✗	
Robert Jenkins	2011 - 2013	✓	✓	Wallmine; NN Group; Citigroup; CVC Capital; Combinatorics Capital, LLC.; F&C Asset Management, plc.; Foreign & Colonial Management Limited; Credit Suisse Asset Management Holding; Credit Suisse Investment Management Group Ltd.; Credit Suisse; Aberdeen All Asia Investment Trust

*Continued*

Name	Dates served on FPC	Employed before and/or during FPC membership	Employed after FPC membership	Financial firm
Adair Turner	2011 - 2013	✓	✓	Chubb Europe; Chase Manhattan Bank; McKinsey & Co.; Merrill Lynch Europe; Standard Chartered plc

Source: Bank of England Annual Reports and Accounts from 1997-2021.

### 3.2.3. Prudential Regulation Committee

The Prudential Regulation Authority (PRA) was created by the Financial Services Act 2012, alongside the FPC, with these two regulators formally replacing the now defunct Financial Services Authority (FSA). The regulatory decisions previously taken by the board of the FSA are now exercised through the Prudential Regulation Committee (PRC). Those decisions involve acting to counter any risks identified by the FPC. More broadly, the PRA's primary function is the supervision of all financial companies in the UK, from banks to insurers to credit unions.

There have been **24 members of the PRC (and PRA board) since the PRA's formation, 17 (70.8%) of whom have worked at private financial companies**. A similar division can be observed in the current membership, with seven of the 11 sitting PRC members (63.6%) having a background in the private financial sector. **Two of the 11 current members still hold positions at private financial institutions**.

The Treasury is presently considering whether or not to grant a secondary regulatory objective to the PRC that would require it to support the international competitiveness of regulated firms within its rulemaking. It is therefore of particular significance that the PRC is exposed to conflicts of interests amongst its current membership. Already widely criticised by civil society for risking a 'light-touch' approach from regulators (Finance Innovation Lab et al., 2022), the proposed objective is especially concerning when being granted to the decision-making committee with the greatest exposure to the interests of private financial firms (Positive Money, 2022).

**Table 10:** Positions held in private finance by Prudential Regulation Committee members/Prudential Regulation Authority board members 2013-2022.

Name	Dates served on PRA/PRC	Employed before and/or during PRA/PRC membership	Employed after PRA/PRC membership	Financial firm
Andrew Bailey	2013 -	✗	Current	
Julia Black	2018 -	✗	Current	
Ben Broadbent	2014 -	✓	Current	Goldman Sachs
Tanya Castell	2021 -	✓	Current	Handelsbanken Plc; Standard Life Savings Ltd; Faster Payments Scheme Ltd; Societe Generale International; Multrees Investor Services Ltd; UBS (UK) Pension and Life Assurance Scheme; HBOS Group Money Purchase Scheme; Lloyds Banking Group; UBS AG; JP Morgan
Sir Jon Cunliffe	2013 -	✗	Current	
Antony Jenkins	2021 -	✓	Current	Fannie Mae ( <i>current</i> ); Blockchain ( <i>current</i> ); Currencies Direct ( <i>current</i> ); Palamon Capital Partners ( <i>current</i> ); Barclays; Citigroup; Barclaycard; Visa Europe

*Continued*

Name	Dates served on PRA/PRC	Employed before and/or during PRA/PRC membership	Employed after PRA/PRC membership	Financial firm
Jill May	2018 -	✓	Current	S.G.Warburg & Co.Ltd; UBS; Ruffer Investment Company ( <i>current</i> ); JPMorgan Claverhouse ( <i>current</i> ); Standard Life Investments Property Income Trust ( <i>current</i> )
Nikhil Rath	2020 -	✓	Current	London Stock Exchange (LSE) plc
Sir Dave Ramsden	2017 -	✗	Current	
John Taylor	2021 -	✓	Current	Lloyds Banking Group; Scottish Widows; Standard Life
Sam Woods	2016 -	✓	Current	McKinsey & Co.
Norval Bryson	2015 - 2021	✓	✗	Scottish Widows Group; TSB Bank Ltd; Scottish Provident Institution (now Royal London); Aberdeen Asset Management
David Belsham	2015 - 2021	✓	✗	Prudential plc
Mark Yallop	2014 - 2020	✓	✗	UBS; ICAP; Deutsche Bank
Christopher Woolard	2020 - 2020	✗	✗	

Continued

Name	Dates served on PRA/PRC	Employed before and/or during PRA/PRC membership	Employed after PRA/PRC membership	Financial firm
Sandra (Sandy) Boss	2014 - 2020	✓	✓	BlackRock; Enstar Group; McKinsey & Co.; McKinsey Master Retirement Trust; Merrill Lynch & Co.
Mark Carney	2013 - 2020	✓	✓	Brookfield Asset Management; Stripe; PIMCO; Goldman Sachs
Charles Randell	2013 - 2018	✗	✗	
David Thorburn	2015 - 2018	✓	✓	Barclays Bank UK plc; Clydesdale Bank & Yorkshire Bank; Trustee Savings Bank (TSB)
Nemat (Minouche) Shafik	2014 - 2017	✗	✗	
Iain Cornish	2013 - 2015	✓	✓	Leeds Building Society; Shawbrook Bank; Yorkshire Building Society; St James's Place plc; Arrow Global Group plc; Vanquis Bank
Martin Wheatley	2012 - 2015	✗	✓	Jigsaw XYZ; Oasis Management

*Continued*



Name	Dates served on PRA/PRC	Employed before and/or during PRA/PRC membership	Employed after PRA/PRC membership	Financial firm
Rosalind Gilmore	2013 - 2014	✓	✗	Zurich Insurance Group; Lloyd's of London
Nick Prettejohn	2013 - 2014	✓	✓	TSB Bank plc; Lloyds Banking Group; Scottish Widows Group; Lloyd's of London; Prudential UK & Europe; Brit Insurance; Legal and General plc

Source: Bank of England Annual Reports and Accounts from 1997-2021.

## 4. Narratives

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Following the financial crisis, public trust in financial institutions plummeted (YouGov-Cambridge, 2013). Ten years on, a YouGov poll commissioned by Positive Money found that two thirds of Britons still did not trust banks to work in the public interest (White, 2018). But financial institutions and their allies in government are seeking to reinvent the sector's image by presenting it as the 'engine of the economy', a supportive ally to ordinary people during the pandemic, and a solution to environmental breakdown. These deceptive narratives distract from the reality of an oversized financial sector prioritising its own growth and profits over the interests of people and planet.

### 4.1. Supporting the 'real economy'

The financial sector's dominant narrative over the past decade has emphasised its contribution to the 'real economy', boosting economic growth and providing employment and tax revenue. Private finance's interests are thereby portrayed as not only consistent with, but crucial to, the interests of the public. This narrative has been increasingly deployed to contest tighter regulatory constraints on financial firms, claiming that such regulation would negatively impact ordinary businesses and households (James et al, 2021).

The 'supporting the real economy' narrative persists today, featuring prominently in the current post-Brexit deregulatory agenda. For example, in its recent response to the Treasury's consultation on the future regulatory framework for financial services, UK Finance claims that "the contribution of the banking and finance sector to the prosperity of the UK is more vital than ever" (UK Finance, 2022). Meanwhile, The City UK, which was set up by the government in 2010, publishes an annual report titled "Key facts about the UK as an international financial centre", which attempts to lay out how crucial the UK's large financial sector is to its economy (TheCityUK, 2021). In its landmark publication "A new chapter for Financial Services", the Treasury describes the financial sector as "the engine of our economy, a driving force of global markets, and critical to the creation of sustainable growth at home and abroad" (HM Treasury, 2021a).

In reality, describing the finance sector as vital to the UK's prosperity and 'the engine of our economy' masks the reality of the so-called 'finance curse'. A significant body of empirical research shows that beyond a certain point, further growth of the financial sector hampers rather than supports the real economy (Tax Justice Network, 2020). One study estimates that the excessive size of the UK's financial sector may have cost the economy £4.5 trillion in lost growth between 1995 and 2015 (Baker et al, 2018).

### Box 8: Estimates of the financial sector's contribution to total economic output are methodologically flawed

According to ONS data, the financial sector's contribution to total UK economic output, measured in terms of gross value added (GVA), peaked at 9.1% in 2009, and has remained between 8% and 9% ever since (Hutton and Shalchi, 2021). Financial lobbyists often highlight such figures in an attempt to convey the economic value of the sector to policymakers and the public. TheCityUK, for example, describes itself as “the industry-led body representing UK-based financial and related professional services, an industry that contributes over 10% of the UK's total economic output” (TheCityUK, 2022).

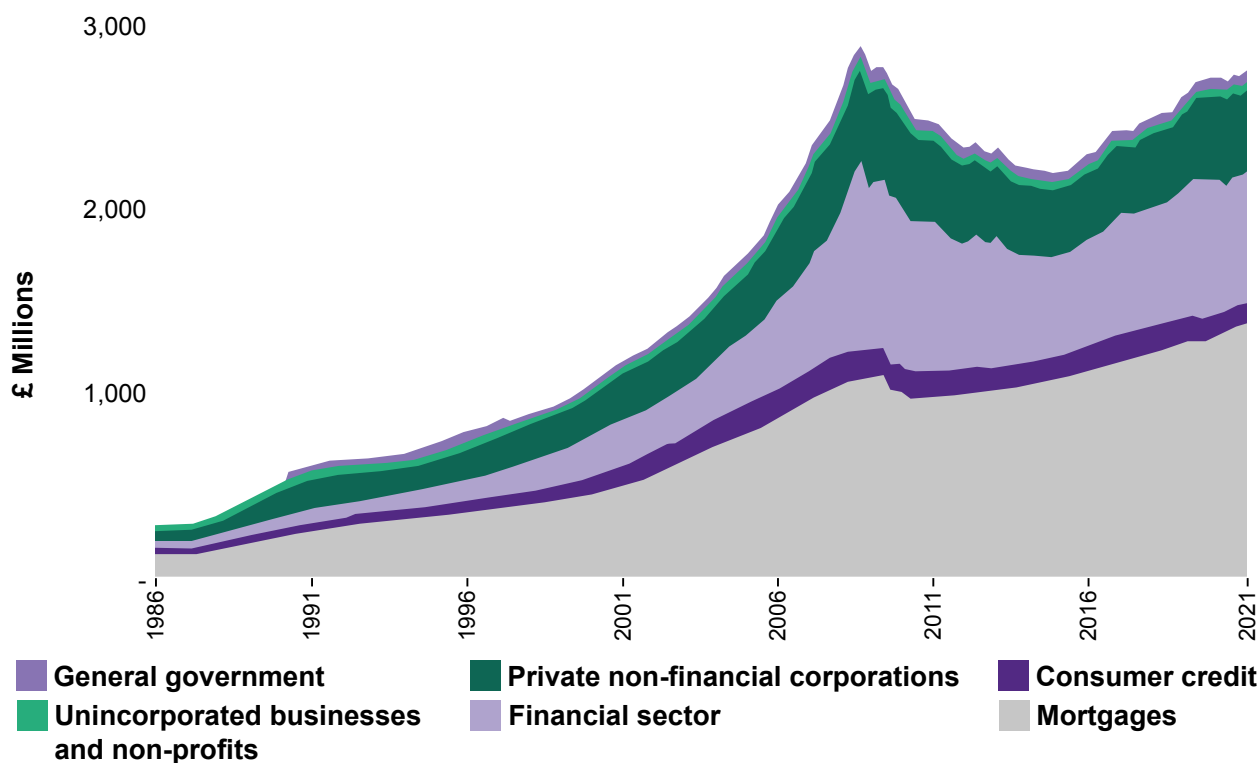
However, as argued by former BoE Chief Economist Andy Haldane and his colleague Vasileios Madouros, “it seems likely that the value of financial intermediation services is significantly overstated”, for two main reasons (Haldane and Madouros, 2011). First, in the current methodology, high levels of dangerous risk-taking inflate banks' estimated economic output, which is why the financial sector's official contribution to GVA perversely peaked in 2009, right after the onset of the global financial crisis. Researchers from the European Central Bank found that adjusting the existing methodology to eliminate the positive contribution of excessive risk-taking resulted in Euro area bank output being 24 – 40% lower than official figures (Colangelo and Inklaar, 2010). While the ONS has since explored this issue (Akritidis, 2017), it has not yet implemented any methodological adjustments to resolve it.

The second main reason that existing statistical measures of output overestimate the financial sector's output is that they fail to take into account the enormous cost of government support to the banking sector, as well as lost output resulting from financial crises that originate from high risk activity within the sector. Haldane and Madouros (2011) specifically emphasise the importance of implicit subsidies on top of explicit bail-outs, explaining that banks' too big to fail status (see section 5) results in an implicit guarantee that governments will rescue them from default. This government backing allows banks to borrow much more cheaply from lenders, and therefore make larger profits. Haldane (2011) estimated that the five largest UK banks benefited from a ‘too big to fail’ subsidy of approximately £50 billion a year between 2007 and 2009.

More fundamentally, it is important to consider that overestimating the financial sector's output is only one of many methodological concerns related to measures of total economic output. A previous Positive Money report, ‘The Tragedy of Growth’, showed that endless GDP growth is a harmful policy goal, and argued that GDP's dominance in policymaking should be replaced by a dashboard of social and economic indicators (Barnes and Boait, 2020). Therefore, even if the ONS does improve its methodology for estimating the financial sector's contribution to economic output, policymakers should not be guided by such figures, but rather recognise that growth in aggregate economic output is no solution to society's biggest challenges.

The UK financial sector's disproportionate lending to finance, insurance, and real estate sectors (see figure 9) is a key way in which it acts as an 'engine' of asset price inflation and rising inequality, rather than of the wider economy (Kazi and Macfarlane, 2022).

**Figure 9: Bank lending allocation in the UK.**



Note: Quarterly amounts outstanding of resident financial institutions' sterling and all foreign currency net lending (in £ millions) not seasonally adjusted.

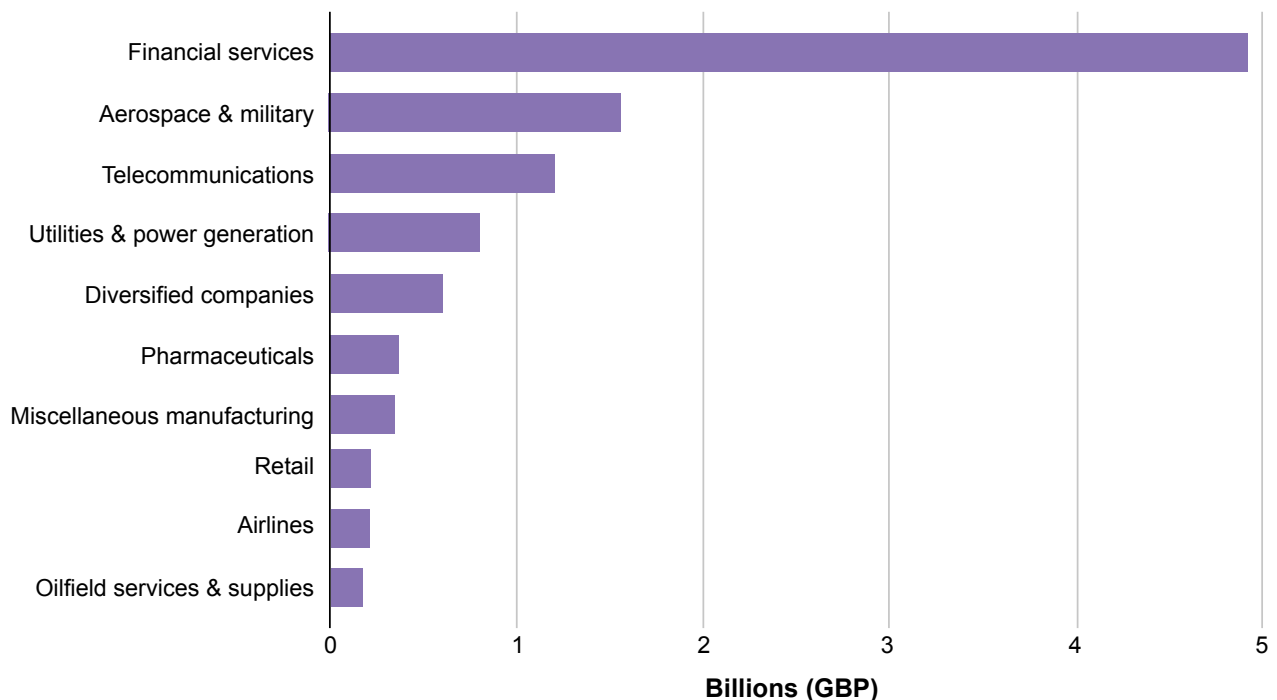
Source: Kazi and Macfarlane (2022), based on data from the Bank of England Interactive Database.

Financial institutions' record of legal infringements is another prime example of how their own interests and behaviours are inconsistent with the interests of ordinary businesses and households. Financial firms are the biggest repeat offenders of corporate crimes, stacking up fines totaling £4.9 billion since 2010, far higher than any other sector (see figure 10). These offences have involved failures to conduct adequate due diligence related to money laundering and other types of financial crime, unfair handling of mortgage customers in payment difficulties or arrears, manipulation of interbank lending rates at the expense of customers, and insider trading. A continuous stream of new banking scandals reported by the media suggests that the available data on legal violations may only scratch the surface of finance's misconduct (Shields and Murphy, 2022).

In addition to those violations for which fines have been issued, there have also been numerous cases in recent years where regulators have failed to act against serious wrongdoing. The FCA has frequently been branded ‘toothless’ by MPs and campaigners due to its repeated failures to take enforcement action against the firms it regulates, such as in the case of the Connaught and Woodford fund scandals, which left hundreds of thousands of ordinary savers, as well as local authorities, facing significant losses (Selby, 2016; White, 2021). Other notable examples include the Global Restructuring Group scandal, in which RBS (now NatWest) pushed thousands of small businesses into bankruptcy and stripped them of their assets between 2008 and 2013. Though the FCA had previously found that RBS had mistreated more than 90% of GRG customers, it finally decided in 2019 to take no action, concluding that “its powers to discipline for misconduct do not apply and that an action in relation to senior management for lack of fitness and propriety would not have reasonable prospects of success.” (FCA, 2019). It later emerged that the chief executive of the FCA at the time, current Bank of England governor Andrew Bailey, was himself involved in a key element of the GRG scandal, a potential conflict of interest he failed to declare (Hurley, 2021).

The FCA’s repeated failings illustrate how the influence of private finance leads to an environment where regulators are making decisions in the interest of firms rather than consumers. In response to the FCA’s failure to regulate the collapsed London Capital and Finance fund, the Treasury Committee has called for a change of culture to ensure the regulator is willing to act to protect consumers (Treasury Committee, 2021a).

**Figure 10:** Total value of fines issued to the top 10 most heavily fined sectors in the UK.



Source: Good Jobs First and Transparency Task Force Violations Tracker UK.

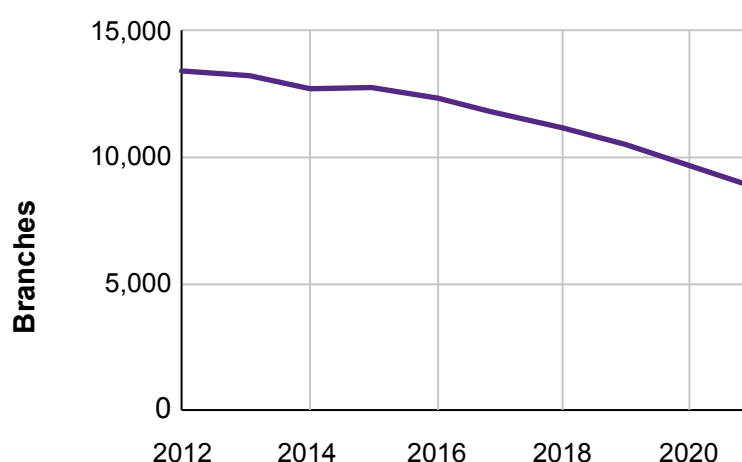
## 4.2. Providing a COVID-19 lifeline

Throughout the pandemic, UK Finance issued dozens of press releases emphasising the “unprecedented support” they provided to struggling customers (UK Finance, 2020). The narrative that private finance prioritised struggling customers has been embraced wholeheartedly by the Treasury, claiming that “[t]he benefit of a vibrant financial services sector was clearly demonstrated in the economic response to the pandemic. The sector worked with the government and the regulators to keep branches open for those who needed them, offered payment holidays for those in financial difficulty and provided loans to businesses in need” (HM Treasury, 2021a).

This is a deeply misleading depiction of financial institutions’ general response to the pandemic. Stating that they were keeping branches open masks the steady long-term decline of bank branches due to closures. According to ONS data displayed in figure 11, the number of branches in the UK fell by 34% between 2012 and 2021, and according to Which? (2022), the number of UK bank branches has fallen by nearly half (48%) since 2015, with banks closing 4,911 branches across the country — a rate of around 54 a month. While there was a brief slowdown in branch closures at the beginning of the pandemic, banks and building societies still shut down 369 branches in 2020 and over 736 in 2021. The FCA issued a statement in January 2021 asking banks to reconsider planned closures due to their negative impact on customers, but banks such as HSBC and Lloyds continued to announce further branch closures (FCA, 2021; Morris 2022).

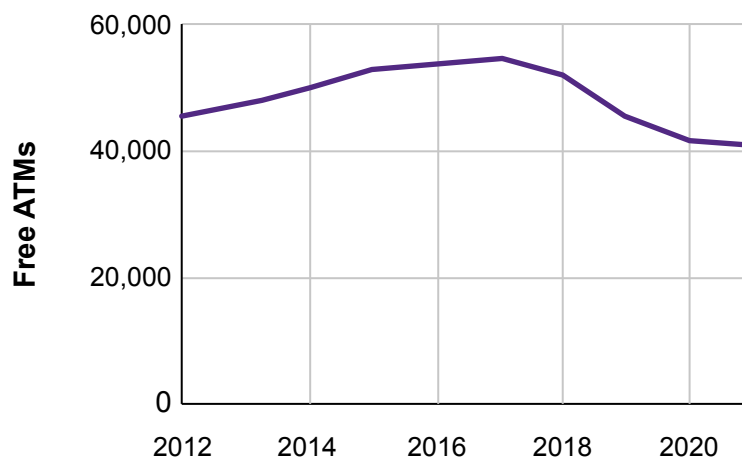
Meanwhile, between July 2018 and July 2021, close to 13,000 ATMs were taken out of service, amounting to a 20% decrease in the total stock of ATMs across the UK, jeopardising customers’ access to cash (Shalchi and Booth, 2022). A driving cause behind the disappearance of free ATMs has been LINK cutting the interchange fee, the charge which funds such ATMs, a decision ultimately driven by the commercial interests of banks and card companies (Positive Money, 2020).

**Figure 11:** Total number of bank and building society branches in the UK.



Source: ONS data compiled by house of Commons Library, Link.

**Figure 12:** Total number of free to use ATMs in the UK.



Source: ONS data compiled by house of Commons Library, [Link](#).

In addition, banks' implementation of Covid emergency lending schemes was fraught with problems. In the initial stages of the schemes, banks charged excessively high interest rates, requested personal guarantees on loans that were already 80% backed by the government, and rejected thousands of loan applications (Adler, 2020). In response, Rishi Sunak increased the government's guarantee to 100% for the Bounce Back Loan Scheme (BBLs), offering loans of up to £50,000 to small and medium-sized businesses. The Treasury still allowed banks to charge 2.5% interest on loans without taking on any of the risk (Youel, 2020). This is despite the fact that for the Swiss scheme the BBLs was modelled on, government-guaranteed loans were interest free up to 500,000 Swiss Francs (£409,630), with interest on loans above that amount limited to 0.5% (The Federal Council, 2020).

It's also worth noting that banks have failed to provide adequate support or compensation to victims of fraud during the pandemic (Brignall, 2021). Authorised push payment fraud, where scammers trick individuals into sending them money, rose particularly sharply during the pandemic, and the number of complaints to the Financial Ombudsman Service (FOS) about banks' mishandling these cases doubled in the 2020-2021 financial year. The FOS has ruled against banks in 73% of cases, judging that they treated customers unfairly and requiring them to reimburse victims' funds. While it's positive that the FOS is upholding customers' complaints, banks' negligence in the first place has left fraud victims waiting for life-altering sums of money for months on end (Cavaglieri, 2021). During the height of the pandemic NatWest customers also saw their current accounts suddenly closed without explanation, leaving many without a means to make payments (Prestridge, 2020).

More broadly, while ordinary households have struggled enormously throughout the COVID-19 pandemic, banks have, in effect, been implicitly bailed out by the government. A report by the Institute for Public Policy Research (IPPR) estimated that 32% of furlough money flowed directly to banks via loan repayments (Berry et al, 2020). This amounts to a total of just over £22 billion throughout the lifespan of the furlough scheme. Furthermore, given the design of Covid loan schemes, the government will compensate banks for 80%-100% of defaulted loans while businesses will be left to fail. In March 2021, the Business, Energy and Industrial Strategy department estimated that the government would be on the hook for £17 billion due to defaults and fraud under the Bounce Back Loan scheme alone (NAO, 2021).

As low-income families are further squeezed by the cost of living crisis, banks have raked in considerable profits (Treanor, 2022), handed out record bonuses to their employees and are set to receive a tax cut on profits in 2023 (Neate, 2022; Partington, 2021). In sum, banks' behaviour throughout the pandemic has fallen short of genuine support for the real economy, and has echoed the failures of the 2008 global financial crisis by privatising profit and socialising risk.

### 4.3. Tackling climate change

The 'opportunities' that green finance presents is an increasingly hot topic in private finance. Rishi Sunak wants to position the City of London "at the forefront of green finance" and make the UK a 'world-leader' in this field (HM Treasury, 2020). At COP26, Sunak's speech highlighted Mark Carney's Glasgow Financial Alliance for Net-Zero (GFANZ), a voluntary alliance of 450 financial institutions with net-zero targets. As these institutions are worth over \$130 trillion, Sunak claimed "[t]his is an historical wall of capital for the net zero transition around the world." (HM Treasury, 2021c).

The financial system certainly has a major role to play in tackling climate change, but large financial institutions are currently a far bigger part of the problem than the solution. Since the Paris Agreement, the world's 60 biggest banks funnelled \$4.6 trillion into fossil fuels, and in 2019 alone, 50 banks invested \$2.6 trillion into activities that are primary drivers of biodiversity destruction (Banking on Climate Chaos 2022; Portfolio Earth, 2022). Members of the Net Zero Banking Alliance — the banking wing of Carney's GFANZ — have continued to finance companies expanding upstream oil and gas expansion to the tune of at least \$38 billion since the alliance was formed just a year ago. This behaviour is ongoing despite the International Energy Agency's recommendation that there should be no further expansion of oil and gas fields if the world is to reach net-zero by 2050 (Lerin et al, 2022).

Institutional investors are also guilty of driving the climate crisis. Recent research found that "4,408 institutional investors held investments totalling US\$1.03 trillion in companies operating along the thermal coal value chain" (Reclaim Finance, 2021). Vanguard and Blackrock — also members of GFANZ — lead the rankings with \$86 billion and \$84 billion invested in the coal industry respectively. Furthermore, a study of 723 equity funds found that 71% of Environmental, Social, and Governance (ESG) labelled investment funds and 55% of specifically 'climate-themed' funds are not aligned with Paris Agreement goals (InfluenceMap, 2021). Similarly, a UK-focused study found that a third of climate-themed funds registered for sale hold shares in oil and gas producing companies (Buller, 2020).



Regulatory initiatives intended to improve standards and minimise greenwashing have at times been so watered down that they've ended up exacerbating it. For example, following the introduction of the EU's sustainability disclosure requirements in March 2021, data provider Morningstar found that between June and September, the European sustainable fund universe expanded by 65%, reaching a total of 6,147 funds. But following an extensive review of funds, it found that fund managers self-reported their funds as being 'sustainable' without having adequate credentials to back-up these claims, and it therefore took the decision to cut 1,200 funds from its 'European sustainable' list (Quinio, 2022).

The next step towards creating a financial sector that is truly aligned with environmental goals is recognising the extent to which the sector is currently part of the problem.

## 5. Economic Dependence

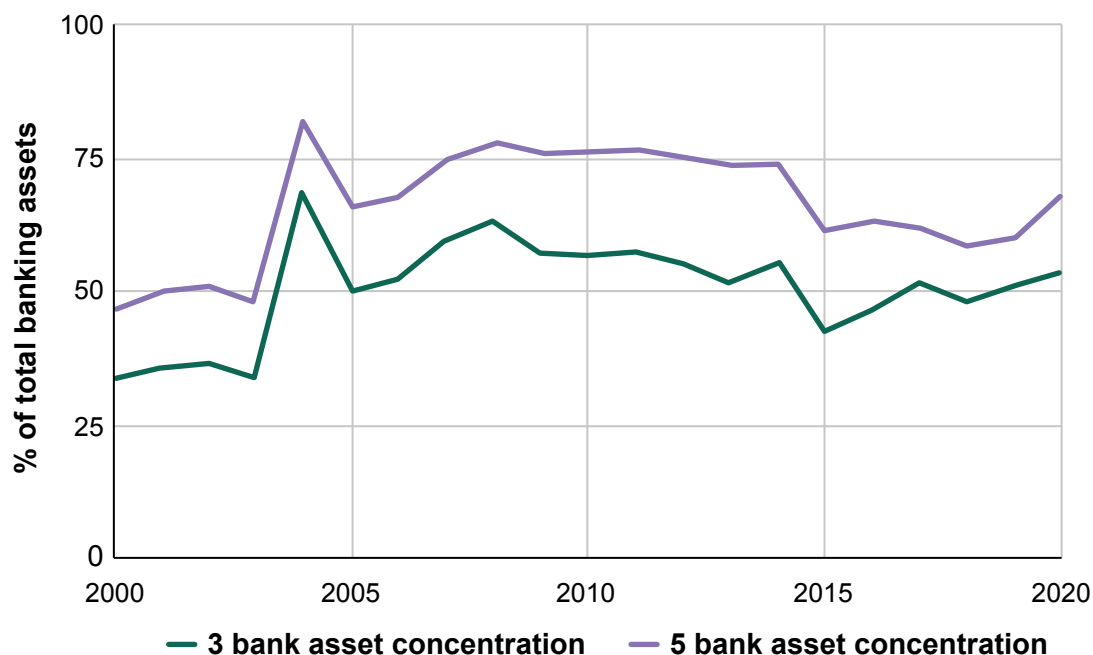
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While the financial sector is not sufficiently serving the public interest or helping to tackle climate change (as shown in section 4), this section describes how economic activity is nonetheless dependent on a stable financial system, and how financial institutions derive political power from this dependence.

Economic transactions rely on commercial banks for access to credit and payments systems. Credit is, alongside the labour and natural resources it employs, the lifeblood of economic activity, and the ability to make payments is essential to individuals' and firms' participation in society. As bank deposits are the main form of money circulating in the economy, a banking crisis can bring down the payments systems we all depend on in daily life. This dependence provides commercial banks with 'structural' power, meaning that policymakers' decisions often align with their interests regardless of lobbying efforts. Banks and other large financial firms are granted special protections and advantages over firms in other economic sectors, including the provision of deposit insurance, exclusive access to the Bank of England's accounts and settlements systems, and — in the event of a financial crisis — bailouts from the government, which are ultimately paid for with public funds.

Our dependence on commercial banks is made particularly problematic by the oligopolistic structure of the banking sector. Over the past three decades, a small number of banks have grown massively in size and have become increasingly interconnected. As shown in figure 13, the three largest UK banks currently account for over 50% of total banking assets, while the largest five banks account for close to 70%. The New Economics Foundation's Financial System Resilience Index judges the UK's financial system to be by far the least resilient financial system in the G7 (Macfarlane, 2016).

**Figure 13: Bank concentration in the UK.**



Note: '3 bank asset concentration' refers to the combined value (in £ sterling) of the assets held by the 3 largest UK banks. '5 bank asset concentration' refers to the combined value of assets held by the 5 largest UK banks. Both are shown as a proportion of total banking assets held in the UK.

Source: World Bank Global Financial Development Database.

If a systemically important bank fails, the impact can rapidly spread across the entire financial system and have devastating consequences for the real economy, as demonstrated by the collapse of Lehman Brothers in 2008. The subsequent realisation that banks had effectively become 'too big to fail' resulted in fiscal authorities providing bank bailouts and government guarantees, and a new era of unconventional monetary policy pumping liquidity into financial markets, in an all-out effort to restore financial stability.

#### **Box 9: Did Brexit display the limits of the political power of finance?**

According to many analysts, Brexit displayed the limits of the political power of finance, given that the City was unable to achieve its majority preference for remaining in the EU (Thompson, 2017; James and Quaglia, 2018) - a political loss that could result in the exodus of financial services from London to financial centres in the EU, such as Paris and Frankfurt. However, this assessment underestimates the extent to which the EU is dependent on London's financial infrastructure, and the political power that flows from this economic dependence.

Despite the EU's initial resistance to providing special treatment for any one of the 'four freedoms' of the single market - freedom of goods, services, capital, and labour - it ended up carving out unique protections for the financial sector. Recognition of the EU's dependence on London's deep and liquid financial markets, related professional services, and physical infrastructure, resulted in a wide range of contingency agreements being established to protect finance in the event of a no-deal Brexit (Kalaitzake, 2021a). For example, in December 2018 the EU Commission granted full equivalence to UK central counterparty clearing firms (CCPs), which facilitate trading in derivatives and equities markets, for a period of one year. This agreement has been repeatedly extended ever since, with the latest extension running until June 2025 (European Commission, 2022).

For largely the same reasons that EU policymakers have offered special treatment to the City of London, UK financial institutions have not emigrated to the EU. In fact, the UK financial sector employs more people currently than it did prior to the referendum, and recruitment is booming (Barnett, 2022). The City also continues to attract high levels of foreign direct investment, fintech funding and new firms, and has "increased its dominance in major infrastructure markets such as over-the-counter clearing of (euro-denominated) derivatives and foreign exchange" (Kalaitzake, 2021b). On the other hand, London now handles fewer repurchase agreements and was temporarily overtaken by Amsterdam as the largest hub for shares trading, although the latter was short-lived and relatively economically insignificant while it lasted. Overall, the UK has firmly maintained its competitive advantage over the EU in financial services. Policymakers are now seeking to use the process of replacing EU regulation after Brexit to further increase the 'international competitiveness' of the City, despite opposition from civil society (Finance Innovation Lab et al., 2022).

Overall, the EU's deep dependence on the City of London, and how this influenced Brexit negotiations, displays the strength rather than the limits of the City's structural power.

On top of the economy's structural dependence on 'too big to fail' banking, political power also arises from policymakers' dependence on finance for the implementation of certain economic policies. Braun (2018) refers to this as 'infrastructural power', which "stems from entanglements between specific financial markets and public-sector actors, such as treasuries and central banks, which govern by transacting in those markets" (Braun, 2020). He argues that in becoming 'participants' in financial markets, for example by buying and selling government bonds, policymakers become more likely to align with the interests of those markets. In their response to the COVID-19 pandemic, central banks around the world became more active than ever in financial markets (Cantú et al., 2021).

Gabor (2021) argues that this type of financial power is being extended beyond monetary and fiscal policy into other areas of public policy, as the state seeks to involve and ultimately rely on private finance to "fund and operate its *physical and social* infrastructure" (emphasis in original) related to housing, health, nature and more.

## 6. Recommendations

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### 6.1. Tackling conflicts of interest, lobbying, and the revolving door

#### **Recommendation 1: Strengthen standards for the registration of interests for MPs, peers, and ministers by updating the Members' Code of Conduct and Ministerial Code.**

Trust in politics has sharply declined in recent years: in 2014 just under half of British people saw politicians as 'out for themselves', with this figure rising to two thirds of people in 2021 (IPPR, 2021). In order to address conflicts of interest stemming from financial ties between public officials and the private sector, and restore trust in democracy, improved transparency is a necessary prerequisite.

Currently, disclosure requirements in the Members' Code of Conduct suffer from multiple gaps. For example, MPs are not required to disclose shareholdings under £70,000 unless their investment represents 15% of the company's issued share capital (UK Parliament, 2015). Therefore, an MP could hold hundreds of thousands, if not millions, of pounds worth of shares in a sector of the economy, yet face no obligation to disclose this interest as long as they split their investments across multiple different companies. The Register of Lords' interests is even less transparent, as peers are not required to report the value of interests they hold or their salaries for paid positions. These disclosure gaps must urgently be filled, providing the public with a comprehensive picture of parliamentarians' interests, and deterring parliamentarians from accumulating conflicts of interest in the first place.

Furthermore, Ministers are not required to register gifts, benefits or hospitality received in their capacity as Ministers in the MPs' Register of Financial Interests. Instead, they are required by the Ministerial Code (set by the Prime Minister) to disclose gifts and hospitality in departmental disclosures, which are published on a quarterly basis. Other interests relevant to their ministerial duties are published only once or twice a year in a list of Ministers' interests (Cabinet Office, 2021). In comparison, the MP's Register of Financial Interests is updated on a monthly basis. Therefore, Ministers — who likely receive most of their gifts, benefits and hospitality in their capacity as Ministers, rather than as MPs — are subject to a lower standard of transparency than non-ministers, given that their interests are published in a far less timely manner.

The House of Commons Committee on Standards has recognised that it "is manifestly inappropriate for Ministers to be subject to fewer and less onerous standards of registration of financial interests than Members who are not Ministers" and is considering recommending that ministerial interests be disclosed on the MPs' register (House of Commons Committee on Standards, 2021). We agree that ministerial interests should form part of the Register of Members' Financial Interests, so that all MPs' interests can easily be found in one place, and ministers' standards of registration are brought in line with those of the rest of the House.

## **Recommendation 2: Ban second jobs for MPs except for public service roles, and cap the amount they can be paid for speeches.**

Following media scrutiny of MPs' second jobs (triggered by the Owen Paterson lobbying scandal — see box 3 in section 2), the proposal for a ban on second jobs received a groundswell of support, with 77% of people now thinking it's unacceptable for MPs to be employed to give advice to companies lobbying parliament (YouGov, 2021). Our findings show that throughout 2020 and 2021, MPs received a total of £2.3 million from the financial sector, in the form of payments for second jobs and speeches, as well as donations, gifts, and hospitality. These benefits were all accrued while crucial financial services legislation, such as the Financial Services Act 2021, was going through Parliament, further underscoring the need for a ban on second jobs. However, some exceptions should be made for public service roles, such as doctors, nurses, teachers, and firefighters.

In November 2021, the House of Commons voted in favour of a motion to ban MPs from accepting second jobs specifically as parliamentary advisors or consultants (Hughes and Parker, 2021). While this is a small step in the right direction, it falls far short of the wider ban needed to prevent serious conflicts of interest arising between MPs' duty to serve their constituents and their personal interests in the private sector.

Polling data shows longstanding public support for a more wide-reaching ban on second jobs. In 2015, a YouGov poll found that 54% supported a full ban on MPs taking second jobs, while only 28% opposed the ban (Shakespeare, 2015). More recently, an Ipsos poll conducted in 2021 found that only 19% of Britons approve overall of MPs holding second jobs. There was also significant variation in responses depending on the specific job: while 52% said they would approve of an MP working as a doctor for the NHS, only 15% would approve of an MP working as a paid advisor to a bank or a financial services organisation (Pedley and Garrett, 2021).

In addition to earnings from second jobs, certain MPs are also receiving disproportionately large sums of money for giving speeches. Theresa May, for example, has earned £1.86 million from speeches since leaving office as Prime Minister (Dyer, 2021). Therefore, we also recommend that payments for speeches be restricted to only cover expenses, preventing MPs from receiving large sums of money in the form of speaker fees, which may give rise to conflicts of interest.

We do not propose a ban on private sector jobs for peers, given that they are not full-time salaried public officials. However, our research shows significant potential conflicts of interest in the House of Lords, including 60% of peers currently sitting on the Economic Affairs Committee having paid interests in the financial sector. Once peers' earnings are disclosed in the Lords' register of interests (see recommendation 1), it will be easier to determine the severity of such conflicts of interest, and evaluate whether a cap on earnings or a ban on certain types of employment would be proportionate measures to prevent such conflicts of interest arising.

### **Recommendation 3: Cap political party donations and require All-Party Parliamentary Groups (APPGs) to disclose funding sources.**

Section 1.2. shows that our political parties are heavily reliant on donations from financial institutions and individuals closely tied to the financial sector. This is one of the many reasons presented in this report that the government is unlikely to move towards financial policymaking in line with the public interest. The record of major donors securing political access, influence, and peerages is one of the strongest indications that campaign funding and spending rules are in need of reforms.

In 2011, the CSPL released a report titled ‘Political Party Finance: Ending the big donor culture’, arguing that the current rules were “unsustainable, damaging to confidence in democracy and in serious need of reform”. They went on to explain that “this was also the view expressed by the three major parties at the last elections” and “all three made commitments in their manifestos to reform the big donor culture”. CSPL concluded that “the only safe way to remove big money from party funding is to put a cap on donations, set at £10,000.” They considered that this would necessarily entail an increase in public funding of political campaigning, though at a relatively small cost relative to other measures aimed at protecting democracy.

Over a decade on, political party fundraising models are still based on securing large donations from a small number of wealthy individuals. In a more recent CSPL report on Election Finance, published in July 2021, the Committee made a number of well-reasoned recommendations (such as requiring individuals to be on a UK electoral register to be permissible donors), but it omitted any cap on donations. When questioned about this omission, the Chair of the Committee Lord Jonathan Evans stated there was a lack of “political will or public appetite for major reform of party finance”, despite accepting that there was clear need for reform to prevent “undue access and influence given to donors” (Evans, 2021). However, evidence from the British Election Study survey shows that 82% of people in 2016 see the issue of party funding of “some ” or “great importance” (Goddard, 2016). Voters feel disillusioned with the voices of wealthy donors mattering more than theirs: compared to the 6% of voters who believe their views are the main influence on ministerial decision making, 25% believe that donors to political parties are the primary influence over government policy (Patel and Quilter-Pinner, 2022). Moreover, politicians from both sides of the House have become more vocal recently in their support for capping large donations, in light of wealthy donors being linked to individuals under sanctions. This is, therefore, a weak justification for failing to pursue this reform, which remains as needed today as it was when the Committee recommended it in 2011.

A more recent debate concerning big money in politics revolves around All-Party Parliamentary Groups (APPGs). Currently, APPGs are not required to publish financial accounts; only those with funding levels above a given threshold are obliged to provide a basic income statement on request. Open Democracy reported that when it asked 190 APPGs to provide these documents in 2020, half of them declined (Hovhannisyan et al., 2022). It should not be up to investigative journalists to dig for information about APPGs’ funding sources: this should be public information disclosed in a consistent manner in a centralised register maintained by the House of Commons. Parliamentary authorities should be granted the power to shut APPGs down where clear conflicts of interest are identified, as proposed by the Chair of the House of Commons Committee on Standards (Hovhannisyan et al., 2022).



#### **Recommendation 4: Extend the statutory Register for Consultant Lobbyists to include in-house lobbyists by amending the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act.**

In-house lobbyists (meaning lobbyists that are employees of the companies they lobby for) are not required to register their lobbying activities. As its name suggests, the statutory Register for Consultant Lobbyists only requires consultant lobbyists to disclose their activities, which means that only lobbying undertaken by specialist firms is captured in the register. This is why neither David Cameron nor Greensill Capital, for example, appear on the register, despite the fact they were evidently engaged in intensive lobbying activities. In fact, only 4% of groups that appear in departmental disclosures of meetings with ministers appear on the lobby register (McKay and Wozniak, 2020).

The lack of any requirement for in-house lobbyists to disclose their activities means that the public has no ability to scrutinise the activities of the vast majority of those seeking to influence those in power. In Scotland, Ireland, and Canada, in-house lobbyists make up approximately 80 to 95% of registrants (Transparency International UK, 2021). These are just a few of the many countries whose registers include all types of lobbyists, regardless of whether they are in-house or consultants. Furthermore, the statutory Register for Consultant Lobbyists only requires disclosure of a minimal amount of information, including name and client list. In many other countries, including the US, Canada, and Ireland, registrants are required to provide details of what they are lobbying for, including the specific pieces of legislation they're seeking to influence.

The UK must raise its lobbying transparency to meet these commonly held standards by extending its register to include in-house lobbyists, requiring registrants to provide a summary of their lobbying intentions, and ensuring these summaries are updated at regular intervals. Disclosures of the main content of interactions with parliamentarians, regulators, and government should be required on a monthly basis, to ensure timely information is consistently available to the public.

#### **Recommendation 5: Update the Ministerial Code to require departmental disclosures to be published on a monthly basis and to include essential information about the content of meetings.**

Departmental disclosures of meetings are also deficient, as they are published across multiple different web pages on a quarterly basis, and provide only a brief statement of the perceived purpose of meetings and interactions. These disclosure processes should be consolidated and reformed, requiring disclosures to be published on a monthly basis in a centralised database, and to provide a concise overview of the topics and pieces of legislation under discussion. These changes were recommended by the CSPL in its recent report "Upholding Standards in Public Life" (The Committee on Standards in Public Life, 2021).

An expanded, more comprehensive statutory lobbying register (see recommendation 4) would render departmental disclosures less necessary. However, Transparency International UK provides a number of reasons for having both an improved register and improved departmental disclosures side by side, including that having "dual disclosures provides a safeguard against accidental or intentional failures to report" (Transparency International UK, 2021).



**Recommendation 6: Reform the appointment process for the Bank of England's committee members, ban future external committee members from holding positions at regulated financial institutions while serving at the Bank, and require committee members to disclose their financial interests.**

All appointments to Bank of England decision-making committees are either made unilaterally by the Chancellor or are dependent on the Chancellor's approval. As proposed in a previous Positive Money report 'Seeking Legitimacy', this process should be reformed to incorporate input from the Treasury Select Committee (TSC), which should be given the opportunity to see a shortlist of candidates and offer its views on how committees could be diversified (Macquarie et al, 2019). For appointments to the position of Governor of the Bank of England, a shortlist of candidates should be published to allow for public scrutiny and debate to feed into the final decision.

Furthermore, almost a fifth of current policymakers across the committees still hold positions in the private financial sector. The Bank justifies this by saying that independent members "sit on a part-time basis, and are appointed on the basis of having knowledge or experience which is likely to be relevant to the Committee's functions", and "may therefore be considered for appointment, and may be able to remain members of the Committee, when they have an existing interest, or acquire a new interest, which may give rise to an actual or potential conflict of interest and/or duty" (Bank of England, 2019). Although these members are employed part-time, that does not negate the fact that each has voting power on policies that directly impact not just the British public and economy, but their private interests, too.

While we agree that there is value in recruiting committee members from outside the Bank, we recommend that no committee members should be allowed to simultaneously hold paid positions in firms regulated by the Bank, as the potential for conflicts of interest to arise is too high. This would not prevent committee members undertaking employment in other areas, such as academia, civil society, or private sector companies that fall outside the Bank's regulatory perimeter.

Lastly, under the Bank's internal policy on personal financial transactions, committee members are required to report annually their stock of financial assets and liabilities to the Bank's Secretary Department (Bank of England, 2021c). In the interest of transparency, we recommend that the Bank publish this information on its website (see Box 6 for more information on committee members' shareholdings).

**Recommendation 7: Update the Business Appointment Rules to establish longer 'cool off' periods and bans on lobbying for ministers, civil servants, and independent regulators, and establish a statutory body to enforce these rules.**

Under the 'Business Appointments Rules' set by the government, Ministers and senior civil servants taking up private sector employment are subject to a two year ban on lobbying the government. Permanent Secretaries, the most senior civil servants, and Cabinet Ministers are also required to abide by a minimum 'cool-off' period of three months between leaving their role and taking up private sector employment. Furthermore, both ministers and senior civil servants that wish to take a private sector job within two years of leaving their roles in government must file an application with the Advisory Committee on Business Appointments (ACoBA), which advises on the suitability of such career transitions and whether further restrictions should be considered (Maer and Strickland, 2019).

ACoBA is, therefore, the main official body responsible for scrutinising the revolving door between government and the private sector.

There are multiple widely recognised problems with this institutional setup. First, the length of cool off periods and lobbying bans is insufficient. The CSPL has proposed that the rules be amended to include a cool-off period of two years for any former minister or civil servant that has “had significant and direct responsibility for policy, regulation, or the awarding of contracts relevant to the hiring company,” as well as a lobbying ban of up to five years (Committee on Standards in Public Life, 2021). While we support this recommendation, we encourage lawmakers to consider going a step further with a lifetime ban on lobbying. The Canadian ethics framework already includes a lifetime ban that prevents former officials from lobbying on any specific “proceeding, transaction, negotiation or case” they previously worked on (Government of Canada, 2017). In the US, multiple policymakers have proposed a more wide-reaching lifetime ban on all forms of lobbying to effectively prevent former officials ever obtaining improper access or favours for private sector firms (Carney 2017; McKenna 2018; Golden, 2021).

Second, the Business Appointment Rules lack any statutory basis and no sanctions are enforced for failures to comply. In other words, individuals can freely choose to ignore the current cool-off periods and lobbying bans and face no consequences (other than the possibility of public disapproval if their non-compliance is noted by ACoBA and widely publicised by the media). Therefore, we endorse the CSPL’s recommendation that “[t]he government should make adherence to the Business Appointment Rules an enforceable legal requirement for ministers, civil servants, and special advisers, and set out what the consequences for a breach of contract may be.”

Third, ACoBA also has no statutory basis, and has been described as “toothless” (Public Administration and Constitutional Affairs Committee, 2017). Under current arrangements, the ACoBA may determine that an appointment is unsuitable, or that further restrictions should be applied beyond the minimum requirements outlined in the Business Appointment Rules, but it lacks the power and resources to monitor compliance with its rulings, investigate potential breaches of the Business Appointment Rules, or impose sanctions. The PACAC, CSPL, and anti-corruption civil society groups among others have called for ACoBA to become — or be replaced by — a body that has statutory footing, with the necessary regulatory powers and resources to achieve its objectives (The Committee on Standards in Public Life, 2021).

Fourth, senior civil servants below the level of Permanent Secretary and Director General, as well as roles in independent regulatory bodies such as the Bank of England, fall outside the remit of ACoBA. In its 2016 report “Striking the Balance: Upholding the Seven Principles of Public Life in Regulation,” the CSPL found that close to two thirds of the 60 regulators it surveyed did not even have a policy on former employees moving into the sector they previously regulated (Committee on Standards in Public Life, 2016). We recommend that once ACoBA becomes — or is replaced by — a strengthened and better resourced body with a statutory basis, its remit should simultaneously be extended to cover at least Director and Deputy Director levels, as well as senior roles in independent regulators.

## 6.2. Promoting a regulatory framework that serves the public interest

**Recommendation 8: Discard plans to introduce growth and international competitiveness objectives for regulators, and instead introduce statutory objectives on financial inclusion and alignment with the Paris Agreement.**

Under the government's current proposals for the Future Regulatory Framework, the FCA and the PRA would be given new secondary objectives for growth and international competitiveness. Within the proposals, the government frames the financial sector as an "engine of growth for the wider economy". However, the empirical evidence indicates that growing the financial sector further will have a negative effect on the real economy overall (as a result of the 'finance curse' detailed in section 4.1).

Competitiveness objectives for financial regulators were also a significant contributing factor to the 2008 global financial crisis. Andrew Bailey (speaking while chief executive of the FCA, now Director of the Bank of England) commented that "before the financial crisis, the Financial Services Authority (FSA) was required to consider the UK's competitiveness, and it didn't end well, for anyone including the FSA." The FCA's incumbent chief executive, Nikil Rathi, has also spoken out against a competitiveness objective. Despite these concerns, and those of civil society groups, regulators are again being pushed to adopt a 'soft-touch' approach by a government primarily serving the interests of the financial sector. The government's decision to propose these objectives was directly informed by the successful lobbying efforts of large financial institutions (all available evidence, including the government's own public statements, strongly indicates this — see Box 2 in section 1.1).

The regulatory framework of the financial sector should ensure financial firms act in the interests of communities by creating jobs and supporting businesses within a sustainable economy, which could be better achieved by giving regulators statutory objectives and regulatory principles that focus directly on positive social outcomes, such as financial inclusion.

In the Future Regulatory Framework consultation process, the government proposed to update an existing regulatory principle for sustainable growth to reference climate change and a net zero economy. This alone would be a small positive step, but could easily be overridden by the stronger statutory objectives for growth and competitiveness the government has proposed. Instead, a new statutory objective for regulators to guide the financial sector towards alignment with the Paris Agreement would be a more effective and proportionate change to address the climate crisis, and would empower regulators to play their part in supporting the green transition (Finance Innovation Lab et al., 2022).

**Recommendation 9: Require the FCA and PRA's statutory panels to consist of at least 50% public interest representatives.**

The government's proposals for the Future Regulatory Framework include a strengthened role for statutory panels, requiring regulators to consider input from stakeholders while developing policy and regulation. While the government does acknowledge the need for the panels to include a diverse range of stakeholders in the consultation, no specific measures are mentioned to ensure panels reflect a range of backgrounds and experiences. In addition, there is a greater risk of regulatory capture by large financial sector firms: under the new framework, parliamentarians will be distanced from the line-by-line regulatory decisions, and panel members representing the interests of financial sector firms will be in a stronger position to influence regulator decision-making.

To counterbalance this, the voices of industry, consumer and civil society representatives should be allocated a substantial presence on all statutory panels. The FCA and PRA's new statutory panels should consist of a maximum of 50% industry representatives, with at least 50% allocated to consumer and civil society representatives. In addition, sufficient resources should be provided by the regulators to all representatives, enabling public interest groups to participate constructively in the panels alongside industry. The PRA should also convene a new statutory panel for public-facing consultations, bringing the PRA's level of public engagement in line with the FCA's (Finance Innovation Lab et al., 2022).

**Recommendation 10: Establish a new financial services joint committee to provide in-depth scrutiny over changes to legislation and regulation.**

Brexit provides an opportunity to build a new regulatory architecture which ensures that Britain's financial system serves society, as the UK onshores decision-making previously made at the EU level. However, as this report shows, there is a risk of new legislation and regulation being dictated by vested interests, due to the considerable power large financial firms are able to exert over policymakers through a number of different channels, usually outside of the public eye.

The government's proposals for the post-Brexit Future Regulatory Framework would see increased decision-making power granted to the Treasury and regulators, which remain vulnerable to regulatory capture. It will therefore be important to ensure that increased power over financial policymaking is met with a commensurate increase in public scrutiny.

The role of parliamentary committees is crucial in providing public scrutiny over legislation and holding policymakers to account. Combined with the recommendations in this report to mitigate Parliamentarians' vested interests, a new financial services joint-committee, comprised of members from the House of Commons and Lords, could play a key role in ensuring changes to legislation and regulation are adequately scrutinised to safeguard the public interest.

This committee should be empowered to question the government and regulators, and undertake reviews and inquiries into the impacts and effectiveness of new financial services legislation and regulation. Due to the often highly technical subject matter, any such committee should be supported with significant independent resources, in a similar manner to how committees such as the Public Affairs Committee is supported by the National Audit Office (Finance Innovation Lab et al., 2022).

### 6.3. Reducing our economic dependence on banks, card companies and private sector finance

#### Recommendation 11: Implement a fair and inclusive digital payment method provided as a public utility.

Households and firms are heavily reliant on commercial banks to make payments. This dependence leads policymakers to frequently align with the interests of big banks regardless of lobbying efforts (see section 5). Banks and card companies also capture considerable sums of money in debt repayments, overdraft fees and transaction fees from the real economy, which collectively amount to the extraction of substantial ‘economic rents’ from communities and businesses. Reducing the economy’s dependence on commercial banks will therefore require the provision of payments and financial infrastructure that does not fundamentally rely on the solvency and profitability of commercial banks, card companies and technology firms. Digital payments and basic accounts services must therefore be provided under a public utility model.

Providing digital payments as a public utility will require a range of new policies to be implemented in parallel. Firstly, the Bank of England must issue universally accessible public digital money, which people can hold and transact with without relying on commercial banks as intermediaries.<sup>16</sup> Secondly, a widely trusted and publicly-owned institution, such as the Post Office, should be empowered to provide people with access to payments and basic accounts services that send, receive and store the digital money issued by the Bank of England. The newly established public payments system would then safely operate alongside other means of payment, including physical cash, bank deposits, and new privately issued forms of digital money such as ‘cryptocurrencies’.

Alongside the new provision of digital payments services as a public utility, universal access to cash withdrawals and deposits must continue to be provided, and acceptance of cash as a means of payment by shops and businesses should be well supported. Digital payment methods are rapidly gaining in popularity, and this trend is widely expected to continue; however, millions of people across the UK still rely on cash, and will continue to do so for the foreseeable future.

A further consideration is the long-term need for digital money to recreate the key benefits of physical cash to the fullest extent possible. To achieve this, the Bank of England could issue a true digital cash: digital money that circulates as a token or bearer instrument, able to be transferred ‘peer to peer’ without the need for any centralised account services. As the use of physical cash declines, the risks of surveillance, economic exclusion and exploitation through digital payment systems — whether by government institutions, governments of other nations, powerful corporations, or individual actors like hackers and criminals — correspondingly increases. As a result, the further the UK moves increasingly towards a cashless society, the greater the public-interest case becomes for the Bank of England issuing digital cash. Launching digital cash is an urgently needed policy response to the rapid decline of physical cash services.

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<sup>16</sup> Such a proposal is commonly referred to as a central bank digital currency (CBDC), and can both take the form of accounts at the central bank, or a bearer instrument ‘token’ (similar in principle to physical cash).

## **Recommendation 12: Foster a more diverse banking ecosystem that serves the needs of local economies and communities.**

Financial institutions play a vital role in society, facilitating the investment that enables economic activity to take place. Private financial companies, including those that are for-profit, do not always have interests that conflict with the wider public's, and there are a number of purpose-driven lenders in the UK that are demonstrating the positive role the sector can provide for society. These include stakeholder banks with alternative ownership structures, such as community development financial institutions (CDFIs), mutuals and credit unions, as well as more 'traditional' banks with ethical missions, such as Triodos. Unlike publicly-listed commercial banks, whose main objective is to maximise shareholder value, these alternative financial institutions are able to pursue not only economic but also social and environmental goals. Stakeholder banks have been found to better serve the needs of customers and communities, such as by lending more towards the real economy to support local economic development, and making greater efforts to increase financial inclusion, as well as having a more positive impact on financial stability (Prieg and Greenham, 2013).

The UK banking sector is currently dominated by a small number of large shareholder owned lenders, with just five commercial banks holding 87% of the retail market in 2018 (Reuters, 2018). This is a much higher level of market concentration compared to other European countries such as France and Germany, where the market share has been evenly split between a larger number of commercial banks, mutual and cooperative banks, and (in the case of Germany) state banks, and where correspondingly SME's financing needs are much better supported (Saravia, 2022; Statista Research Department, 2022).

To ensure a financial sector that serves society, policymakers must do more to foster a more diverse banking ecosystem in the UK. Financial regulation currently favours the large incumbent firms and provides considerable barriers for alternative lenders. New legislation such as the Financial Services and Market Bill should actively promote stakeholder banking models, and enable regulators to ensure a more level playing field. The existing UK Infrastructure Bank should be empowered, or a new institution established, to serve as a public development bank, that supports local economies, operating on a decentralised basis — enabling investment decisions to be made by local or regional authorities.



## 7. Conclusion

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The excessive political power of the financial industry undermines democratic control of our economy. As this report has shown, the financial sector in the UK exerts significant influence over Parliament, the Bank of England, and HM Treasury, which prevents optimal conditions for economic policymaking in the interests of society at large.

The financial sector is pushing to roll back important regulatory protections, put in place in response to the global financial crisis in 2008, by leveraging close financial ties with parliamentarians and political parties. With huge lobbying budgets, financial firms have been able to secure unequal access to financial policymakers, holding disproportionately many meetings and overwhelming consultations with submissions in order to weaken regulatory constraints on their commercial activity. A clear theme has emerged of Chancellors and Bank of England officials moving freely between the spheres of regulators and regulated entities, blurring the lines between financial lobbyists and public servants. The most powerful financial firms are pushing the narrative that finance must continue to grow unabated for the real economy to prosper, despite the fact they lend primarily to each other and into the property market, and rarely lend money to the most socially productive sectors of the economy. Underlying all of these channels of power, finance exerts structural power over democratic decision-making by playing a central role in allocating credit and investment to different economic sectors, and providing the essential payments infrastructure that allows money to circulate in the economy. This structural importance enables private finance to exploit its status as ‘too big to fail’ to disproportionately influence public policy, with the sector’s growth regarded as paramount to the wider economy’s success, regardless of the social and environmental costs.

Our democracy does not have to function this way. It is possible to have a financial sector that works for the public, not the other way around. Conflicts of interest within Parliament can be tackled by implementing stricter regulations over parliamentarians, and enforcing a cap on donations that can be made to political parties. Lobbying has a place in democracy, but we must ensure transparency and share access to these channels of political influence fairly between industry, civil society, and community representatives. Regulation must be guided by a framework aligned with the public interest and the Paris Agreement, rather than promoting the competitiveness of the City of London. The revolving door can be shut by establishing safe cool off periods for policymakers when they leave public office. More space can be made for ethical finance that puts serving local communities and respecting the environment first. Finally, the structural dependence on finance as a mechanism for policymaking can be fixed by the creation of a public payments system: a safe and inclusive public infrastructure for making payments and accessing vital financial services.

This report’s policy recommendations would place fairer limits on the political power of the financial sector, enabling the voices of communities, civil society and the real economy to be heard on the role and future of finance.

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