



Select Committee on the European Union

Sub-Committee on EU Services

Corrected oral evidence: Financial services after Brexit

Monday 30 November 2020

09.55 am

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Members present: Baroness Donaghy (The Chair); Lord Bruce of Bennachie; Baroness Coultie; Lord McNally; Baroness Neville-Rolfe; Baroness Prashar; Lord Sharkey; Lord Thomas of Cwmgiedd; Viscount Trenchard; Lord Vaux of Harrowden.

Evidence Session No. 2

Virtual Proceeding

Questions 14 - 27

Witnesses

I: John Glen MP, Economic Secretary and City Minister; Katharine Braddick, Director-General, Financial Services, HM Treasury.

Examination of witnesses

John Glen MP and Katharine Braddick.

Q14 **The Chair:** Good morning. Welcome to the EU Services Sub-Committee's second public evidence session as part of our inquiry into financial services after Brexit. The session is being broadcast on parliamentlive.tv. A full transcript is being taken and will be made available to you to make any corrections shortly after the session.

I am very pleased to welcome to the meeting John Glen, Treasury Secretary, and Katharine Braddick from the Treasury. You know the format, so I will open without further ado.

What progress do you think has been made in the negotiations with the EU on financial services in recent months? How important is achieving a deal to the UK financial services sector?

John Glen MP: Thank you very much, Baroness Donaghy, for the opportunity to come before you again. My last appearance before you was in July and at the previous Committee in March. Obviously, a lot has happened since July. The Chancellor made a significant set of announcements a few weeks ago, on 9 November.

Over recent weeks, we have seen a serious intensification of the negotiation with the EU on a free trade agreement. Unfortunately, I cannot go into the details of that negotiation or prejudge the outcome, although I am very happy to come back when it is concluded.

With respect to financial services, the Treasury has been working very closely with David Frost's team. We have been seeking an agreement on a determined basis. We have a lot of respect for our EU friends, respecting their sovereignty and the fact that we, too, wish to ensure that we get the best outcome for financial services. Our approach throughout, which I probably mentioned to the Committee in July, is to seek predictability, transparency and business-friendly outcomes. Obviously, when the FTA is concluded, there will be more to be said.

As regards the importance of financial services and preparedness for all outcomes, as I think I also said previously, the financial services sector is extremely well prepared. A lot of work was done through 2019 to onshore the appropriate regulations. We have put in place various permissions and regimes to mitigate the risks, and firms have taken individual actions. The success of that situation is reflected in what the FPC says: "Most risks to UK financial stability that could arise from disruption to cross-border financial services at the end of the transition period have been mitigated".

We continue to urge firms to look at that preparedness more broadly at firm level, but the Chancellor's announcements on 9 November set out a clear set of ambitions for financial services around the openness that we have. We made 17 equivalence decisions known at that point. We have put a lot of emphasis on green finance and the leadership role that we want to

continue to have in that area. We also talked about the opportunities for the application of technology to financial services.

I recognise, too, that our longer-term success as a centre for financial services will depend on many factors. I would be very happy to go into those during this session.

Q15 The Chair: You mentioned that the UK unilaterally published its positive equivalence assessments in a number of areas. Is there any sign that the EU will be prompted to publish its equivalence determinations? You told us in July that the Government had completed their assessment, but those decisions were not published until November. What caused the delay, if it was a delay?

John Glen MP: We have always been of the view that there is a lot of interconnection between the UK and the EU in financial services regulations. It is well known that officials here played a significant role in shaping many of those directives; Katharine Braddick, who is with us, is one of them.

After the amount of uncertainty that we have had, we thought it was really important for us to remove that uncertainty as far as we could in areas where it would be appropriate for us to make those determinations known. That is what we did. I draw attention to the positive reactions that we have seen across industry. The CEO of Barclays was very affirming of the fact that we need openness and transparency. The director-general of the ABI welcomed the approach taken, as did the chief executive of the Investment Association.

On the gap between July and November, we have always sought a comprehensive set of equivalence decisions. We think that is in the best interests of financial services both in London and the UK generally, and in the EU. There came a point when, absent any decisions from the EU, despite having filled in 2,500 pages of forms across many different questionnaires, we felt as a Government, and the Chancellor felt, that it was important that we brought as much clarity as possible. We have done what was sensible for industry, and industry has supported that.

In the end, my responsibility is to do what is right for the UK. I cannot comment on what the EU will do. As I say, we have co-operated fully. We will continue to take a constructive approach to dialogue with the EU. That will always be our approach, but I cannot comment because I am not in the EU, and I do not know what the Commission's view will be or when it will come to that decision.

The Chair: Katharine Braddick, do you have anything to add?

Katharine Braddick: No, I do not think so. Ministers were keen to provide certainty where it could sensibly be provided, and that is what informed the way the decisions were taken.

Q16 Lord Sharkey: Good morning to you both, and welcome to the Committee yet again. My question is in three parts.

We have noted that the Commission has granted an 18-month extension of equivalence for UK CCPs, and last week a six-month extension for central securities depositories. In which other areas do you see a positive EU equivalence decision as most important?

Secondly, what would the consequences for the financial services sector be if the EU did not grant any further positive equivalence decisions?

Thirdly, what preparations will the Government and firms need to make for the end of the temporary extensions of equivalence for CCPs and CSDs?

John Glen MP: Thank you very much for your three-part question, Lord Sharkey. Congratulations on your interview this morning on the "Today" programme, which I listened to at the time. I think you set out there many of the challenges that we face. I am very happy to address your questions now.

You are right to say that there are two significant mitigations from the EU Commission on CCPs and CSDs. As I said, our preference has always been to have a full set of mutual decisions, but the EU has made it clear that in the short to medium term it is not prepared even to make those assessments. We hope that by the end of the transition period, given all the information that the EU has, it is still possible for it to make those determinations, but it has made it clear that in some areas it will not make them.

We take some encouragement from the temporary regimes the EU has put in place for CCPs, and from the fact that ESMA recognised all three UK CCPs, which ensures that UK CCPs can serve the EU market effectively. The approach of temporary permissions in those key systemic areas is not the final outcome on where those things could go. As I said before, we are not in a position to know exactly what the Commission will do. The time-limited nature of these decisions brings insufficient clarity to industry. That is something I regret, but it works both ways. We have granted the EU equivalence on CSDs. Can we have the same rulebook?

We want to manage risks. As I said in my first answer, the financial services sector is very well prepared. UK firms have set up legal entities in the EU, which I would describe as contingent arrangements far less significant in size than many were predicting in my early months in this job. They have ensured that their clients filled in the documentation. They have dealt with data issues, which I am sure we will come on to.

In the absence of overall equivalence decisions, it is important that we made those arrangements, and I will continue to work with officials to try to improve and deepen the dialogue that is necessary. We have excellent relationships. It might be appropriate for me to ask Katharine to comment on some of those working relationships. There is obviously a lot of technical work on CCPs, and on CSDs, which are almost like the plumbing under CCPs. Katharine might want to say something about the nature of those arrangements and the dialogue we have had.

Katharine Braddick: I will comment briefly on continuing engagement between the UK and EU authorities. They are regulated on both sides and continue to be legally obliged to discharge their responsibilities for financial stability, consumer and investor protection and market operation. They continue to co-operate on those issues, and to engage with each other, as firms consider their planning for the end of the transition period and what will follow.

Although we have not engaged with the Commission on equivalence since we sent our responses to its questionnaires in the summer, we have not had any follow-up questions on any of those. We have continued to talk to the Commission about some important outstanding issues, including Libor transition, which is a very important challenge facing both sides. There continues to be technocratic engagement on the priority areas as we go through this period.

Lord Sharkey: In which other areas do you see a positive equivalence decision from the EU as the most important? Do you have a view about which would be the priorities?

John Glen MP: I am not going to start listing individual areas. Given the desirability for us to bring clarity to industry across all areas, and given the strong symmetry we have, there are grounds for those decisions to be made. Industry has a range of views about what is most desirable, but we have always said that there are grounds for comprehensive equivalence based on where we have been. I am not going to pick out individual ones. I do not want to start prioritising; we are in a negotiation and there is a lot that is still live.

Lord Sharkey: Thank you for that. Perhaps, later, we can come back to the question of what additional preparations need to be made for the end of temporary permissions.

Q17 **Baroness Prashar:** Do you think that the EU's stance on equivalence has been politicised and influenced by the broader future relationship negotiations? Is it plausible that any areas of UK financial services not granted equivalence before the end of the transition period could be granted equivalence in 2021?

John Glen MP: Again, it is very difficult for me to speak to the Commission's mindset on the internal considerations that it may have weighed up. We have always been clear that the politicisation of equivalence is in no one's interest. We are talking about a very important industry that underpins many other industries in the provision of financial instruments and the innovation in that provision.

We, as a Government, do not rule out equivalence in the future. Sometimes this discussion is framed entirely around the outcome of the free trade agreement as if there is no possibility of dialogue in the future. Comprehensive equivalence findings on both sides are in the interests of both parties, and we are open and committed to a dialogue that could lead to that. At what time that comes is a matter of negotiation and the outcome

of that negotiation, but I cannot emphasise enough the strong relationships that we have at a technical and working level. We cannot rule out what will happen in future, in due course.

Baroness Prashar: Ms Braddick, is there anything you wish to add?

Katharine Braddick: As the Minister said, we have been consistent in saying that we think a normalised, co-operative relationship is to the benefit of both sides. In taking the decisions that they have taken, Ministers have sought to leave that possibility open. That is how we can normalise the relationship.

Q18 **Viscount Trenchard:** The EU does not talk much about equivalence of outcomes, and its approach to equivalence has not seemed to all very co-operative, as evidenced by the earlier discussions. You have indicated that we will regulate differently and regulate better.

Do you now intend to embrace more regulatory divergence than you had earlier anticipated? How do you assess the reaction to the publication of the Financial Services Bill and the future regulatory framework review, and has there been any response from the EU?

John Glen MP: We need to be clear about the issue of divergence. Clearly, we are separate markets. We cannot fully anticipate the way markets evolve. In areas such as green finance, fintech or crypto-assets, there is no single template for the future. The Commission's press release on 10 November refers to the whole issue of what is to be our future approach to divergence.

The EU has a consultation on the alternative investment fund managers directive. We do not know the outcome of that. We are in a situation where the logic is that somehow we will diverge, and the lack of certainty over it prevents an assessment of equivalence. That is an interesting point, but it does not fully acknowledge the fact that we are in an environment that is moving quickly. As we have seen over the last decade, and before, regulations have had to change; they are not static. There are different regulatory approaches; we tackle the same problems, but in different ways.

In the UK, we have always favoured an approach that gives our regulators the authority to develop technical rules and standards, based on FSMA 2000. The EU generally looks for more prescriptive rules. I am taking the Financial Services Bill through Committee this week, and thankfully we do not have lots of formulae on the face of the Bill; it is appropriate for the PRA and the FCA to do that work when it comes to Libor transition, benchmarks and other matters.

We have always cherished an outcomes-based approach. We have also sought to maintain the highest standards. It is important to reflect on the fact that in the Financial Services Bill we are looking to implement Basel 3.1, whereas the EU has not done that yet. Often, we go beyond the EU, because our global reputation is based on the highest standards and not a race to the bottom.

We have had positive reactions from industry on phase two of the future regulatory framework review. Today, I announced that the consultation will be extended from 19 January to 19 February — an additional month. There is no EU reaction to that. Similarly, there has been no EU reaction to the Financial Services Bill, but it has been well received by industry and I am pleased about that.

Our attempt with the future regulatory framework review is to solicit views over four months to understand what the relationship should be between the Government, Treasury, Parliament and regulators; what the accountability should be; and how we measure and manage the delivery of those standards to the prescription of Parliament. We genuinely wish to hear from all interested parties before we come back with stage two of the phase two review, which will set out what we think would be the best options. We do not want to prejudge that; we are very willing to listen carefully to industry and to Parliament.

I do not want to preside over a transition where, instead of what is effectively an auto-upload from EU directive to regulator, we move to a situation where the regulators have all authority and no accountability. Equally, I am clear that they are the best people, given their technical expertise and world-class reputation, to develop appropriate technical standards for a complex industry. Attending to international norms and evolving norms is very important.

Viscount Trenchard: It seems, as we pass endless statutory instruments—

John Glen MP: Tell me about it.

Viscount Trenchard: —that we are still sticking very much to the prescriptive nature of EU regulation. Is it intended? Katharine, perhaps you could give a comment from the Treasury. When are we going to stop doing things the EU prescriptive way and go back to the kind of principles-based regulations that we used to apply?

John Glen MP: Before Katharine comes in, I would like to state very clearly that under the withdrawal process we are bound to be completely aligned to the EU until the end of the transition period. The Financial Services Bill that is going through Committee stage this week, and will come to the House of Lords in due course next year, is the first opportunity to set out some differences and different ways of moving forward.

In that legislation, we have set out how we will move forward in different areas; for example, there is the overseas funds regime and some of the innovations we are doing on long-term asset funds. We have already put out consultation on Solvency II. The PRIIPs legislation in the Financial Services Bill demonstrates that there is widespread frustration that the prescriptive nature of those scenarios is not appropriate and we wish to do something different, but we have not been able to do that during the transition period.

With great respect, I cannot break the law, but I will do everything I can to get on to the front foot going forward. The future regulatory framework review is how we embed accountability for what the regulators do. That seems consistent with our heritage and positioning as a world leader in financial services. I am very happy if Katharine wants to add to that.

Katharine Braddick: I have a couple of points. The first is that the future regulatory framework review envisages a model in which the regulators continue to have considerable control over the rules that are applied to firms. It will be for them to start to think about ways to write rules that are better suited to the UK market and that do not have to take account of 27 other member states. For example, the deputy governor for the Prudential Regulation Authority, Sam Woods, has already made some public statements about how it might approach that opportunity in its rulemaking.

Equivalence applies only to a relatively small subset of European legislation. We can think about the control that we would have over our rules outside the areas that touch on equivalence in terms of the services that are offered. There are essentially no equivalence regimes for any kind of retail business. Thinking about the rulebook in those areas, equivalence is very unlikely to be a consideration in any cross-border banking or insurance.

In some cases, an equivalence regime is not even to do with permitting access cross-border. In the capital requirements regulation, the equivalence regime is for capital treatments; it does not permit access. The access regimes are a fairly narrow subset of legislation. That is why we have argued that equivalence is a patchwork and arguably, in some ways, needs some building out to support the relationship.

The final point is that a lot of the ways in which regulation affects firms are to do with how the rules are supervised and delivered. That is something over which we have always had control, and which our supervisors can now think about with greater flexibility, in connection with the rules.

We can expect to have quite a live, dynamic conversation between the industry and the regulators, and to some extent with Ministers, about how the rulebook and the supervisory approach come together to the benefit of the UK market. To the list of reviews that the Minister has just provided, I would add the listings regime, where Lord Hill is leading some work. That is an interesting combination of looking at the prospectus directive, a piece of EU legislation, existing UK approaches and the supervision of the regime to see what we might be able to do quite quickly to make it work better for the purposes of raising capital in the UK.

John Glen MP: Thank you, Katharine. That emphasises the discretion and the thinking that we have about a whole range of matters, as well as our ambition. I regularly have conversations with representatives of the Bank of England about some of the live considerations on capital requirements and thinking about what the future looks like. There is active dialogue all the time, and I will continue it. We are not seeking continuity; we are seeking appropriate flexibility and customisation while adhering to the

same goals and challenges that all regulators and industry bodies face with respect to systemic stability challenges, and embracing innovation in a way that maximises opportunities for the UK economy.

Q19 Lord Bruce of Bennachie: As Katharine has just said, equivalence falls a long way short of the passporting regime that we had previously, and that creates space, but also uncertainty. The political declaration says, positively, that the relationship “could include appropriate consultation and structured processes for the withdrawal of equivalence findings, to facilitate the enduring confidence which underpins trade in financial services”.

It seems very positive and very upbeat, but here we are at the 11th hour with virtually no agreement, or a few temporary concessions to transition. How important is it that we get such an agreement? In a sense, that is an obvious question, so what would be the sort of process and timeline you would be looking for to enable people to engage in the market with some degree of confidence? Clearly, a 30-day withdrawal unilaterally, if it was the practical norm, would be impossible for people to live with. I know they have had their difficulties in Switzerland, but, in reality, to what extent do you think that would be an environment in which we would be operating and indeed could operate?

John Glen MP: I recognise the challenge. We need a stable and reliable arrangement for cross-border market access. We believe it is for the benefit of both sides for us to have a comprehensive framework for that co-operation, to provide stability for equivalence decisions.

It would be appropriate for me to remind the Committee that I have said previously that we will adopt a proportionate approach to the withdrawal of equivalence. On 9 November, the Chancellor set out how we will approach equivalence. There is a range of different jurisdictions where we have lots in common, and some where we have less. We would also be guided by how important those decisions were for industry. That would inform the timeline for withdrawal of equivalence.

Your question goes to the issue of the EU-UK future negotiating framework for these decisions. Obviously, that is still a live consideration that we are negotiating. It is clear that the EU and the Commission have a different approach. They seem very concerned about the issue of the UK diverging. We will continue to engage with them, through this process and beyond, to try to establish the best way to bring as much certainty as possible. In the interim, we have brought as much clarity as we reasonably could unilaterally, and as much stability as possible, as well as setting out a broader vision for the future of financial services. We want to be as transparent as possible, as orderly as possible and as proportionate as possible. That is the mindset and the approach that we take.

The financial services industry in the UK serves the continent of Europe well. We want to be in a position where we can both maintain access to Europe and grow our global footprint. That may be something I will come

to in future questions. It is not a static situation. We continue to have dialogue on how it might evolve.

Lord Bruce of Bennachie: In our timescale, and notwithstanding Lord Sharkey's contribution to the "Today" programme this morning, we have heard an awful lot of stuff about the details of the argument over fishing, which is a tiny proportion of our economy, and almost nothing about what we are trying to achieve over financial services, which is the driver of our economy. That seems extraordinary.

I do not expect you to share the negotiating position. You said at the beginning that it may not be part of a free trade agreement, which may be about goods. Will this situation be an ongoing negotiation, bit by bit and day by day, for the foreseeable future, or do you believe it will be possible, even if it is on each equivalence sector, to come to an agreement that will give us a process and a timeline that would make it workable?

John Glen MP: I cannot tell you what the outcome will be, but we will continue to take the most constructive approach to dialogue with the EU and to be as forward-leaning as we can on the decisions that we are able to take of our own volition. In his speech on 9 November, the Chancellor set out pretty comprehensively how we would approach the equivalence matter going forward for all third countries, and our ambitions for industry.

I have mentioned in my previous answers this morning the steps taken by industry in the context of our onshoring of regulations. I see considerable resilience in the City of London with respect to the future and the desire to stay in London. I cannot tell you in detail what that future dialogue will look like, but what I know from industry actors is that there is considerable appetite for continuing engagement to resolve outstanding matters. We will continue to do what we can to achieve that.

You refer to the emphasis on other industries. A lot of that is speculation. In due course, I hope that we will get to the end of this free trade agreement negotiation and that more clarity will be forthcoming for everyone.

Lord Bruce of Bennachie: Will equivalence be in that agreement or not? You implied that it probably would not be.

John Glen MP: We have not concluded the negotiation. A number of the questions this morning have asked me to speculate about the Commission's position and the outcome of the free trade agreement. I said in my first answer that I would not be able to comment on that because we have not concluded that process. It would be reasonable for the Committee to understand that, in these final stages, very near the end of the transition period, I wish to reserve comment on some of these matters.

Katharine Braddick: On a pedantic, technical point, equivalence is a completely separate process for the Commission. It is a unilateral decision and is therefore not part of the free trade agreement. Of course, whether the Commission chooses to connect its decision-making on equivalence to

the outcome of the FTA is for the Commission, but the processes have been conducted completely separately. There is no version of the free trade agreement that contains equivalence decisions as such. Of course, they may be made in a way that is co-ordinated in time, but, as the Minister has explained, that is for the Commission, and not for us to speculate on.

John Glen MP: I emphasise the point that we have co-operated fully with that process and completed all the forms that were requested. As Katharine said, the Commission has not come back with any questions on that, and it was four or five months ago.

Lord Bruce of Bennachie: I understand that, but the point is that the issue of equivalence could be an ongoing discussion beyond 31 December.

John Glen MP: As Katharine rightly said, given that it is a technical process separate from the free trade agreement, the coupling or decoupling of it and the timelines are in the end matters for the Commission to grant and in what context. I cannot be certain about how it will play out at this point.

Q20 **Lord Thomas of Cwmgiedd:** I hope we can move to slightly safer ground, away from the negotiations, towards our future, the future regulators and parliamentary scrutiny, where I hope you will not feel quite as constrained as you rightly are in relation to the negotiations. In as specific a manner as is possible, how do you see Parliament exercising its role to hold regulators accountable under the future regulatory structure?

John Glen MP: Thank you very much for the question. First, this process does not mean the regulators having greater power. It aligns them to the Financial Services and Markets Act 2000 and the existing powers that they have, except that now they will gain those powers on direction from the UK Parliament rather than from the EU, even though we had a significant leadership role in the EU negotiation of directives and the outcomes that then came back.

We need the appropriate democratic policy input and oversight that will be carried forward in new legislation, and that must give the Government and Parliament greater say. Surely, the point of Brexit is to give a more direct relationship between the will of the people, as expressed through Parliament, and the sorts of outcomes we wish to have. The consultation will seek to scrutinise the dynamics of the future work of regulators and how they are held to account.

I would respectfully say, however, that the parliamentary scrutiny process is a matter for Parliament and not for me as a Minister. What I hope will happen is that, after we have had—from 19 October to 19 February—an extensive period for reflection and input on what those mechanisms would look like, we will come forward with proposals that reflect and synthesise, and look at what would be the appropriate mechanism.

The Select Committee process is a well-understood and accessible mechanism for scrutiny, but the technical nature of a lot of the regulations which the regulators have to develop, sometimes at short notice, to deal with some of the risks and failures in the market is complex. We defer

those regulations to the regulator for technical standards and so on, because they need deep engagement with industry. We have to get a balance between delegating appropriate activities to those who know how to do them while retaining oversight of the strategic objectives, and their success in fulfilling those strategic objectives, otherwise it will be an empty conversation that is misinformed or unequal in its understanding.

Lord Thomas of Cwmgiedd: In the history of financial regulation—indeed, of the financial markets—there are always very serious scandals. Things will go wrong. They have for centuries and will continue to do so. Surely the regulators benefit from detailed scrutiny of what they are doing, so that they can say, “Well, we had our conduct reviewed”, rather than allowing what is sometimes an easier path, which is to sit back and say, “It is their responsibility and we will cane them when they are wrong”. That benefits accountability.

We have taken some evidence about the European Parliament’s role. The idea was to get more control here. Why do you not see the UK Parliament playing a role much more like the European Parliament in holding regulators to account?

John Glen MP: I was trying to set out that I absolutely think that Parliament needs to hold regulators to account. What I was trying to describe was that, given the nature of the regulations that they construct and the technical work they do, we need to ensure that Parliament is equipped to do that work properly.

Lord Thomas of Cwmgiedd: But—

John Glen MP: May I finish, please? I think there is a difference between accounting for a strategic direction of financial services at the moment and actually understanding and evaluating the technical standards that are operated on the ground. Please come back.

Lord Thomas of Cwmgiedd: Surely, to do that properly you need a degree of expertise. Many people in the Upper House have a lot of background in markets and regulation. Do you therefore envisage equipping committees with better staff and making more funds available, so that we can look with greater precision and help regulators? People always think that parliamentary scrutiny involves being critical, but you want a good friend, and I think we would like to be good friends: critical, but good friends.

John Glen MP: There is a consultation going on. I am anxious to fully take on board the views of industry and all parts of Parliament, so that when I come forward with proposals they take full account of the sorts of views that you have expressed. I have great sympathy with what you are saying, but it is not for me to prescribe what Parliament does.

What I can do, however, is synthesise the output from the consultation and suggest ways forward that will be sympathetic to the completely appropriate aspirations that you have set out, and that use the expertise

of Parliament—people with historical interests and experience in financial services, and some who are still engaged in it and in Parliament—so that we can make use of that and have flexible, agile regulators who ensure that the UK financial services industry continues to be in a world-leading state.

That is what I want to achieve. The consultation is designed to lay the foundations for proposals that will take us to legislation, in the next Session I hope, to achieve what you are setting out.

Q21 Lord Vaux of Harrowden: We have heard from witnesses concerns about the balance between the UK being competitive and ensuring financial stability, with some arguing that regulators should have a competitiveness objective to push them to take account of what they do with regard to the UK's attractiveness for financial services provisions, and others arguing that that would create a risk that distracted from the key stability, market integrity and consumer protection objectives.

The future regulatory framework review proposes activity-specific regulatory principles. The FCA, in its evidence to us, takes a slightly different view: "Where policy considerations are relevant to many areas of regulation, we consider it more appropriate for these to be reflected in cross-cutting regulatory principles rather than individual areas of framework legislation". Could we hear from you where you think the balance lies, and whether you think the proposals in the regulatory review get the balance right?

John Glen MP: For me, the starting point is the retention of high standards. We maintain our status as a competitive, well-regarded jurisdiction to do business if we build on the FSMA model. The IMF and the OECD would describe that as world leading, but we have to recognise that we are in a dynamic international environment where we need to take account of what is happening elsewhere. There will be a balance between those overarching objectives and a degree of prescriptiveness over what we do in different activities and different industries.

What we cannot have is individual firms lobbying for short-term gains that undermine systemic stability considerations. There will always have to be a balance. I imagine that the instincts of all regulators, by their very nature, are to have as much freedom as possible from specific and prescriptive rules. Equally, it is wrong for Parliament to set those rules in a way that creates contradictions and makes them very difficult to satisfy.

We want to listen very carefully to lots of stakeholder views at this point. I want to be able to retain a clear focus on systemic stability being retained while giving enough flexibility to allow changes that enable us to adhere to the same goals, but perhaps do things differently on occasion, when it is necessary to do so. Solvency II, in the insurance industry, does not offer any risks in stability, but it offers flexibility that would be very welcome to the industry. It is not a binary one or the other. It is about trying to find a way to maintain stability but innovate and empower regulators to take

account of a broader set of criteria, on an activity-specific regulatory principle basis.

Lord Vaux of Harrowden: The balance is difficult, but do you think there ought to be some form of competitiveness objective written into the regulators' formal objectives, or do you think we should leave it?

John Glen MP: If you look at the measures that I am taking through at the moment in the Financial Services Bill with respect to Basel 3.1 standards, the benchmarks regulation and what we are doing with Libor and other matters, we are setting out an accountability framework for the regulators that looks at relative standing—the competitiveness position. It is absolutely right that we have those explicitly, but it is absolutely right too that they do what they need to do to maintain the stability that is required. That is the fundamental foundational principle by which we do our utmost to avoid the sorts of challenges that we faced 12 years ago.

The accountability framework is there in the measures we are taking through at the moment, but the future regulatory framework holistic solution for the future of the industry will need to embed that across the board. We have not desisted from putting those principles in the measures that we need to do more urgently in legislation that you will see in your place in a few months' time.

Lord Vaux of Harrowden: You mentioned the ever-changing and innovative nature of these things. How do we make sure that we encourage future innovation so that we stay at the forefront, particularly on fintech, crowdsourcing and getting into the crypto side of things, so that we do not hold ourselves back from that?

John Glen MP: I go back to the Chancellor's speech on 9 November, where he put the emphasis on green finance and some of the mandatory reporting where we will be world leaders for an economy of our size—the TCFD reporting—and some of the aspirations we have with the green taxonomy. I commissioned Ron Kalifa, the former CEO of Worldpay, to do a review of fintech. I caught up with him on that last week. He has an ambitious set of proposals across five areas, which we are looking at very carefully. Katharine mentioned my excellent constituent Jonathan Hill's review of the listings regime to try to make us more competitive, essentially with the US. We are already pretty competitive with other jurisdictions.

We have the future overseas funds regime. We are looking at long-term asset funds. There are lots of things going on to try to make sure that we are in the right place. You referred to crypto-assets, stablecoins and digital currencies. The jury is out across different jurisdictions around the world on how best to regulate for safe innovation. We are at the forefront of that. We have been working co-operatively with the Bank of England and the FCA here in the Treasury on such matters; we have a consultation that has just concluded, and we will be looking at it very carefully.

There is no reticence about thinking creatively or thinking about the future in ways to get on the front foot and maximising the opportunities for the UK's financial services industry.

Q22 Lord Bruce of Bennachie: Building on what you were just saying, Minister, we will continue to have a relationship and trade backwards and forwards in financial services between the UK and the EU forever, but it will be different now that we are not necessarily actively divergent but free to diverge. What structure do you envisage for such a relationship?

Given that the UK has been a major driver of EU regulation, and the EU will now be looking at us as a competitor and therefore will probably treat our recommendations or suggestions slightly differently, do you think it should be possible to create a structure? UK Finance put out a proposal suggesting that there should be a working committee and ad hoc arrangements, and that it should be actively engaged. Do you see that as practical and possible, on the basis that in the end we want a mutually beneficial relationship, and somehow or other we have to create an environment and an atmosphere that makes that possible?

John Glen MP: Yes. A lot is written at the moment about where we will end up on the free trade agreement, and the nature and quality of the relationships that exist. We have put forward proposals for an annexe to the FTA. I think it is fair to say that the EU would prefer to have it outside the FTA.

As I said in my previous answer to you, Lord Bruce, there are no limitations on our future engagement. You cite the UK Finance proposals. We have had similar proposals from other trade bodies, and we have been in dialogue over that. We need a mutually agreed forum or mechanism linked to the level of access across different activities. That is something we are committed to working with the EU to find. By its very nature, it is dependent on an agreement with the EU. You have taken some evidence from those familiar with the EU's views on that. What I am after is an enduring dialogue that leads to resolution, in a timely way, of matters of difference.

We have been as open as we can be in the decisions we have made and on the direction of travel in which we are headed through the Financial Services Bill. It is a significant piece of legislation with 17 measures in it. What I cannot do is prescribe an outcome, because that relies on the EU's co-operation and agreement.

Lord Bruce of Bennachie: Can you see a situation whereby business, trade and politics may become slightly divergent, in that there will be companies in the EU and in the UK that want to do business with each other? They will want a framework that is beneficial to them. Do you see a structure that allows that?

The worry at the moment in this intense atmosphere is that everyone is jockeying for political position. We know that France wants it to be Paris, Frankfurt or whatever. When, as we hope, we get to a slightly calmer space, do you think it will be possible to set up a structural arrangement

that allows business interests to feed in, and where the politicians will still be responsible, perhaps not driving it forward but trying to serve the interests of the economies of both the EU and the UK? Is that too optimistic to hope for?

John Glen MP: No, I do not think it is. You rightly refer to the political noise. It might be worth asking Katharine to comment on the nature of our relationships on the ground, regulator to regulator, to underpin how they are in a good state.

Katharine Braddick: The model the Minister has described is very similar to one that we have up and running successfully with the United States in the Financial Regulatory Working Group, which we have built and developed very successfully with our US counterparts in recent years. It brings together all our regulators to talk about issues where we can work together, learn from each other and potentially reduce frictions for business. It has successful input from industry, both in the US and in the UK—for us, principally via TCUK and the Corporation of the City of London. We are using that model very successfully in our work with the Swiss authorities to develop a mutual recognition agreement, which will be a very ambitious, innovative and far-reaching agreement between the two jurisdictions on financial services.

It is a model that we know works, because we have seen it work in practice. It builds on what I have already described as the kind of routine and very important engagement between regulators cross-border, where they share interests. In all these situations, our desired approach is to connect all those individual technocratic engagements into a strategic whole to inform information sharing and co-operation where it is helpful. With all jurisdictions, in some areas you are inevitably in competition. That is not unique to the UK-EU relationship. Equally, as you describe, there is always shared pressure from business to enable cross-border engagement that benefits investors by stripping out costs and expanding the range of services.

There is certainly a need to scrutinise risks that both sides can see arising in a sector that innovates and changes very rapidly and dynamically. We anticipate that those demands will not subside. There needs to be a point at which we can come together to engage on the issues in a way that commands credibility with industry and with our broader stakeholders in both jurisdictions with regard to the UK and the EU.

Lord Bruce of Bennachie: That is helpful. I assume from that that there will be an identifiable structure once it is in place. People will know whether there are committees or people, or what have you; they will know who to go to, where to go and what the procedures are. It will not be too bureaucratic, but people will understand and know what is going on and where to go.

Katharine Braddick: That is not something we can do unilaterally, but certainly that would be our aspiration for the way the relationship would work. That is what we have been arguing for throughout.

John Glen MP: It is respecting the fact that we are sovereign equals but with different approaches. You need a way of reconciling those.

Lord Bruce of Bennachie: I understand that. It takes time for that trust, which has been somewhat damaged, to say the least, in recent months, to be established. A process such as that would presumably eventually help to build trust.

John Glen MP: That is where we hope we can get to. On the ground we have a lot of mutual respect, and we hope that that will develop.

The Chair: I suspend the session for two minutes in commemoration of the London Bridge terror attack.

The Committee observed two minutes' silence.

The Chair: Lord Bruce, do you have anything to pick up before we move on?

Lord Bruce of Bennachie: No, thank you. I was very happy with the final comments.

Q23 **Lord McNally:** Minister, I was once on an aeroplane that got caught by turbulence and crosswinds just as it was about to land. I am quite sure that the pilot was as calm and serene as you have been this morning about our safe landing, but I hope you appreciate why some of the passengers are getting quite panicky, not least about the question of data adequacy, which we were told was so easy to achieve that it would be a flick-of-the-switch matter, yet here we are, with days to go, and no data adequacy decision forthcoming. What would be the impact on our financial sector if there is no data adequacy by 31 December?

John Glen MP: You are right to say that data adequacy is incredibly important. It is absolutely clear that the free flow of personal data between EU member states and the UK continues for commercial reasons, and for general and law enforcement purposes. The range of needs for that data transfer are significant. We continue to be in talks with the Commission on adequacy decisions on two directives: general data protection regulation—GDPR—and the law enforcement directive. We see those as technical and confirmatory. We have worked very hard to set out explanatory material on our standards and where we are with that. Indeed, we have published it on GOV.UK.

You asked about the absence of adequacy. We have already legislated for the transfer of personal data from the UK to the EU, after the transition period, for four years. Over that period, the UK will complete its assessment of the EU. There are alternatives that we could use on transfer mechanisms, such as standard contractual clauses or binding corporate rules, to transfer data from the EU to the UK. The most common of those are the SCCs. Firms are well advanced in implementing those, having introduced them in advance of the no withdrawal agreement scenarios previously.

I accept that it is a critical issue. I am certainly not complacent about it. I am very aware of the challenges. I think I have explained where we are and what our approach has been. Again, I refer back to some of my previous answers. It is a technical process that is in the Commission's gift. I have explained the mitigations that we would expect to be used if it is not given. We continue to engage very closely with the Commission and are in constant dialogue to seek to secure it as soon as possible.

Lord McNally: A number of witnesses in other sectors have said, as you said, that there are back-up things that can be done contractually and elsewhere, but I do not think any of them ever claimed that it would come anywhere near the granting of adequacy and an agreement on adequacy. Do you agree with that?

John Glen MP: It is the responsibility of the Commission that there is sufficient time to deal with these processes. We have done all that we can to expedite them, and we will continue to be available to clarify any matters that the Commission wishes to bring before us. What I have described are mitigations that are well known, that industry is familiar with and is comfortable using. Clearly, it is desirable to have a data adequacy decision, and we continue to do everything we can to achieve it.

Lord McNally: You referred earlier to the work being done on the national data strategy. We have just received a paper, for the benefit of the Committee, on the European data strategy. Is that not a sign that, the moment we are granted data adequacy, the danger of divergence will immediately appear? How will we keep the dialogue going so that, as much as possible, the EU data strategy and our national data strategy are compatible?

John Glen MP: What you point to is the natural evolution in approaches in different jurisdictions. Complete focus on equivalence at a single point in time could fail to recognise the necessary evolution in regulations that you rightly point to. It will be for us in the UK to look at the evolving way in which different jurisdictions deal with data, and make sure that we are in the best place for our industry and our interests. That is the ongoing challenge that other third countries to the EU will have taken on board, and we will continue in the same way.

Obviously, it will be from a starting point of great familiarity with where the different drivers of change would be and the different industry imperatives influencing it. We have the same engagement with industry, and we would look to secure the best processes going forward for ourselves. We would obviously do that in conjunction with, and not in isolation from, what is happening in the EU and elsewhere.

Lord McNally: Will we have a whole cocktail of agreements? Lord Trenchard and I were talking a few days ago about the free trade agreement with Japan, which has a data adequacy element—an agreement to exchange data. Before, we had the GDPR and we were in the EU. Now, we will need to have individual relationships with holders of data. I know that is not necessarily a Treasury matter, but it is interesting; data is the

new oil, and it will be very complex for us to handle our assets in that area.

John Glen MP: Yes, it is a new development over recent decades. The use and transfer of data is an important element in trading relationships. You cite the free trade agreement with Japan, which goes further than the EU arrangement with Japan, especially on regulatory co-operation matters. In the context of leaving the framework of the EU, we will be developing free trade agreements. We are making significant progress on those in the US, Australia and New Zealand, which are significant for financial services. Katharine referenced Switzerland and the mutual recognition agreement that we are progressing there. That is another example of the alignment of aspirations and an understanding of each other's position on regulation. A lot can be achieved.

You referred to it as a cocktail. I would say it is a series of agreements tailored to the best state of future aspirations between two sovereign entities.

Lord McNally: Dare I risk a joke? You are most probably fed up with it, but I can think of nobody better to get us a safe landing than John Glen.

John Glen MP: I shall take that. Thank you very much, sir.

Q24 **Baroness Neville-Rolfe:** Good morning, Minister. I am very glad to be talking to you from outside your constituency of Salisbury.

What progress have you been making in building closer relationships with other third countries in financial services? Is there an active dialogue, and which countries will be in a global footprint, to pick up two very good words from your earlier comments? Katharine talked about Switzerland and the US model.

I declare an interest as chair of the UK ASEAN Business Council, which embraces Singapore and south-east Asia. I would be interested in your comments on fintech and green finance, which you rightly referenced earlier.

John Glen MP: Thank you very much. It is good to see you. I look forward to the fog being removed from Salisbury.

Our relationship with the EU in financial services is very important. EU states are valued trading partners. We have a strong heritage of doing work and regulations with the EU, but it is not the only jurisdiction. I mentioned the Japanese free trade agreement, which goes further on data adequacy. It seems a long time ago that one was allowed to travel; I went to Japan over two years ago and aspirations there were, and are, very strong. There was a lot of concern over the end of the process.

We are in conversations with a number of jurisdictions. Katharine referenced the dialogue we have with the US, beyond the free trade agreement, at working level on regulations, which she leads. We have done a great deal of work in recent years. You mentioned Singapore, where there are ongoing negotiations. I will not get into the detail, but financial services are again a very important element. The Swiss example is a good one,

where synchronicity of aspirations will lead to a deeper and wider outcome, I hope, that will set the high bar we can get to on financial services relationships.

Green finance is an exciting area. In July last year, we introduced our green finance strategy. The Green Finance Institute was set up with the City of London and is doing great work to try to challenge the City across the 12 regulatory bodies, to look at the skills and education framework that we need in order to embed understanding of net zero and what it means. The leadership position we have taken with mandatory TCFD declarations, many of which will come in in 2023 rather than in 2025, is important. There is the green sovereign bond that we will issue next year.

That sets the direction of travel for where we intend to go, but there will always be new things that we need to be agile in reacting to. The fintech review is significant. Fintech employs 76,000 people in the UK. I am very keen to explore ways that we can emphasise opportunities beyond the City of London, which has about half the jobs in financial services. We have significant hubs developing in Leeds, Cardiff and Bournemouth. Edinburgh and Glasgow remain very significant hubs for financial services.

I am always trying to look at ways in which we can grow the opportunities and find ways where, when it comes to crypto-currencies and stablecoins, we can be at the forefront of enabling the transformation at a wholesale level. Those will be significant new areas where we have to be very thoughtful but committed to finding ways that enable prosperity to come from innovation. We have to do that safely and responsibly, while recognising the transformation that can come, in the same way in which e-commerce has, over the last generation, transformed our high streets and the way we operate.

Q25 **Baroness Neville-Rolfe:** I very much agree. In the longer term, do you think Brexit will make a difference to the UK's prospects for taking a leadership role in developing global standards? Katharine and others have done a magnificent job on exactly that. Beyond digital currencies, international standards for financial services matter right across the board. How will we exercise the leadership role that, strangely, we were able to take as part of the EU, even though we were not leading the talks?

John Glen MP: If you look at what we have done historically—the leverage ratio and the banking resolution regime after the last crisis—we have always taken a leadership role. It befits our status as one of the largest financial services countries in the world. I do not see us moving away from playing a significant role on the Basel committee, at IOSCO, with insurance supervisors or with the Committee on Payments and Market Infrastructures globally.

We are respected for our insights into financial services. Brexit does not mean that we will take an inward-looking approach. We will continue to build alliances on a global basis. Indeed, for many people Brexit means opening up more and deepening our international relationships. In financial services, where there is considerable and faster growth in countries that

are less mature as regards size, that provides greater opportunities. We will be able to look at those. We also want to be active players in the setting of standards and the development of the regulatory environment on a global basis, in order that we can stretch targets and norms that take advantage of where the future opportunities lie.

Baroness Neville-Rolfe: Hopefully, we will also be active in the stability discussions that follow on from the Covid crisis. Presumably, that will be on the agenda of international financiers, and the G7 and so on, in the year ahead.

John Glen MP: Yes. The work that we have done with respect to Covid domestically has been significant, and I think people have acknowledged that; the IMF said that we had one of the most aggressive policy responses and the best examples of co-ordinated action. There will be lessons to be learned in the UK on how we responded and on global co-ordination for future such events. Many of these were unprecedented situations. We have continued to engage constructively on vaccines, and models for getting vaccines out to other jurisdictions. We will continue to play an active role on the world stage.

Indeed, next year with the presidency of the G7, and as we move towards COP 26 in November, there is a great opportunity for the UK to show our aspirations to take a leading position on some of the great challenges we face in the world. That is something we are excited to be leading. For me, with respect to green finance, there is a lot that can be said and done to set many countries in the direction to meet the net zero goal that we have, of course, been the first to legislate for.

Baroness Neville-Rolfe: Thank you, Minister. Perhaps that is an opportunity for another evidence session.

The Chair: Katharine, do you have anything to add to Lady Neville-Rolfe's question?

Katharine Braddick: My only observation is that the UK's leading role in international standard setting has always been very heavily driven by the fact that we have world-leading financial regulators in a world-leading financial sector. It is a self-reinforcing dynamic. It means that we have a particular set of capabilities to bring to those discussions. I do not think anybody expects that to subside in the near term. We continue to resource that across all the authorities, as we always have done, and we continue to expect to be highly engaged in international standard setting as it addresses future risk.

The Chair: That concludes the questions that you have been given notice of, Minister. We have two supplementary questions.

Q26 **Lord Sharkey:** I would like to return to the issue of CSDs. What would be the real-world effect of losing CSD equivalence at the end of June next year?

John Glen MP: I will ask Katharine to come in on this. I described CSDs as the plumbing underneath CCPs. We are clearly in a situation where we have temporary forbearance on CCPs and CSDs. We need to find enduring solutions. Katharine, would it be possible for you to comment on that, as you are a bit more familiar with the nature of the discussion?

Katharine Braddick: Where CSDs are concerned, the equivalence expires next summer; the effect is not primarily, or indeed at all, for UK operators. We have given an equivalence decision that means that UK operators can continue to use EU CSDs. There is no disruption for them.

My understanding is that the outcome of the Commission's decision to give temporary equivalence falls primarily to Irish firms, which have been using UK CSDs and now have six months to move their business into European Union institutions. My understanding is that, where there is disruption, it is for Irish firms. We do not anticipate disruption for UK firms arising from that decision. Of course, it means that UK CSDs will lose the Irish business. It is a pretty small fraction of what they do, but it is not disruptive systemically or commercially as we currently understand it.

Lord Sharkey: That was very clear. Thank you.

Q27 **The Chair:** I have one final question. The content of the FTA may not be crucial to the financial services industry, but the tone will affect us in many ways. It is not just about the future relationship. There is data adequacy, which in theory is separate. You have made equivalences of proportionate importance today, which I found very interesting. There is also, of course, the loss of skill, potentially, and personnel. The tone is really important. Would you like to comment on what pressure the Treasury is exerting to make sure that we come out of this relationship as constructively as possible?

John Glen MP: It has always been our hope and aspiration to maintain strong working relationships with our friends in the EU at regulator-to-regulator level, and at political level as far as that is possible in the context of keenly negotiated outcomes that we hope we will come to the end of soon. It is important that we recognise the interconnected nature of financial services and the relationship that many EU countries and businesses have, and need to continue to have, with the City of London.

Over my nearly three years in office, I note that the predictions of the loss of jobs from London have proved generally not to be as accurate as some imagined. Of course, significant contingency arrangements have been made. The EY research points to about 7,500 jobs moving. That is in the context of 1.1 million people working in financial services.

I recognise that in order to move forward in the best possible way we need to continue to engage with our friends in the EU and develop working relationships around the future evolution of our regulatory frameworks. We have those strong relationships in place. Katharine and many of her colleagues continue to have deep dialogue on many of the matters that we have discussed today.

In the Treasury, we will continue to look for the best way forward on all of these complex matters and to do the right thing by the UK financial services industry. The legislation that I am busy taking through Committee, which you will see in due course, sets out that framework. The Chancellor's speech on 9 November sets out a positive vision for the future of the industry. That is something we have been committed to through all the turbulence of the last three years; we have held on to that and continue to work towards it.

Katharine Braddick: I support what the Minister has been saying. All our effort is now geared to ensuring that we move out of the transition period with as much clarity and certainty as possible for industry, investors, consumers and households, and that we put ourselves in a position to create a safe and competitive environment for the financial services sector of the future. That is now the absolute imperative.

The Chair: Minister, you said that you were pleasantly surprised that the impact on London had not been as great as feared. There were some comments—I am not sure if it was the *Financial Times*—that our handling of the pandemic had an impact on some financial services, and that Paris was the gainer from London. Is there any evidence of that, as far as you are concerned?

John Glen MP: I see those reports all the time. I think the *FT* ran a piece in September saying that bankers were moving to the EU because of the virus. I recognise that small, modest contingency arrangements have taken place. I recognise the aspirations of other countries in the EU to take advantage of the situation with respect to the opportunities that we have and the scale of our financial services hub. That is a natural situation for them to be in.

I do not accept the implied criticism of our handling of the pandemic. We put in £280 billion, and there was affirmation by the IMF on the scale and ambition of those interventions. The financial services industry has done a phenomenal job to bring forward a great deal of support through the loans and the forbearance regimes.

Of course, there are lessons that can be learned, but I do not see it linked to significant outflows of jobs. I was drawing attention to the fact that, over three years ago, there was lots of speculation about the number of jobs that would move, and that now those numbers do not seem to match. I do not want to lose any jobs, but it was inevitable that we were going to lose some, given that we would move away from the passporting regime. I feel very positive about the opportunities that exist in the future, and we will do our best to realise them.

The Chair: Katharine Braddick, do you have anything to add?

Katharine Braddick: No, I have nothing to add to that.

The Chair: That concludes the session unless you have any words that you want to leave us with, Minister.

John Glen MP: I think I have given you plenty. Thank you very much for the opportunity to be before you. I am very happy to come again in due course, as you see fit.

The Chair: We look forward to that. Thank you for your time, John Glen, Economic Secretary to the Treasury and City Minister; and Katharine Braddick, director-general, financial services, at the Treasury. We are very grateful to you for coming along. The public evidence session has now ended. Thank you.