



International Agreements Committee

Corrected oral evidence: UK-Swiss financial services agreement

Tuesday 6 February 2024

4 pm

Watch the meeting

Members present: Lord Goldsmith KC (The Chair); Lord Anderson of Swansea; Lord Boateng; Lord Fox; Lord German; Lord Hannay of Chiswick; Lord Howell of Guildford; Baroness Kingsmill; Lord Marland; Lord Udny-Lister.

Evidence Session No. 1

Heard in Public

Questions 1 – 7

Witnesses

I: Richard Knox, Director for Financial Services (International), HMT; Marie Miauton, Senior Lawyer, Trade and Negotiations Team, Treasury Legal Advisers, Government Legal Department, HMT.

Examination of witnesses

Richard Knox and Marie Miauton.

Q1 The Chair: Welcome to this evidence session of the International Agreements Committee on the United Kingdom-Switzerland financial services mutual recognition agreement, the Berne Financial Services Agreement, as it is called. Members of the committee will declare their interests when they speak for the first time during this session. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken, and you will have the opportunity to make any necessary corrections to the transcript before it is published.

I declare my interest as a practising lawyer in international commercial matters, among other things, including the United Kingdom and Switzerland. With that, and with my warm welcome to you both, I will start the questioning.

Please could you give us a brief overview of the agreement and how, in your opinion, it will benefit the United Kingdom's financial services sector. When you do that, perhaps you can say which parts of the sector will be particularly covered; for example, in terms of trade volume or value. Mr Knox, perhaps you would like to start.

Richard Knox: Thank you very much for the opportunity to talk about this agreement before this committee. First, let me give an overview of the agreement, which is primarily about the facilitation of wholesale cross-border trade in financial services between the UK and Switzerland. By that I mean business-to-business activity, supporting UK financial services firms, providing services to clients and counterparties in Switzerland, and vice versa. In the structure of the agreement there are main text provisions, which give an overview and set out the structures and processes of how the agreement will work. Then there is a set of annexes which cover the detailed way in which the services may be provided for different parts of the financial services sector.

The agreement includes mutual recognition of financial services and regulations, and we have made an assessment of the Swiss regime in certain areas to support that, which in turn allows what we call deference commitments. This essentially means that if you are providing services from one direction to the other, you can switch off the requirements in Switzerland if you are providing services from the UK, for example, because we have reached a conclusion that the two regimes are sufficiently similar¹ to allow that. Alongside that, it creates deep regulatory co-operation arrangements between the UK and the Swiss system and the overall structure; our independent financial services regulators were heavily involved in this, as were the Swiss.

One thing to mention, perhaps to contrast this with a free trade agreement, for example, is that this is a narrow focus on financial services, but it is supporting cross-border business in financial services,

¹ On an outcomes basis

whereas, certainly in terms of financial services, FTAs would tend to support business being done when established in the other country or on travel in the other country.

Another thing that is worth mentioning is the context for this, which is since the global financial crisis there has been, rightly, a huge amount of regulation of wholesale financial services. Areas have been brought into regulation that were not regulated before, which of course has introduced complexity for firms operating cross-border, where they have had to think about complying with regulation in multiple jurisdictions. Part of the aim of this agreement is to simplify and stabilise those relationships between the UK and Switzerland.

You asked about the benefits; I would put them in two broad categories. First is that the agreement creates a new legal structure between the UK and Switzerland for cross-border services, which will provide, across wholesale business, a more stable and predictable set of arrangements, supported, as I said, by regulatory and supervisory co-operation. Secondly, it creates new market access between the UK and Switzerland, focused particularly on insurance, and it also exempts UK insurance brokers from new Swiss rules that would have required them to localise in Switzerland. Overall, the agreement provides new market access under a new and stable set of arrangements between the authorities of the UK and Switzerland.

The Chair: One thing we will want to come back to at some stage during this session is the extent to which this may be a model for other agreements but let us leave that until the question is raised. I am assuming, Miss Miauton, you do not want to add anything to what Mr Knox has said—you are welcome to if you do.

Richard Knox: Did you want to add anything?

Marie Miauton: No.

The Chair: That is fine. Lord Howell, you wanted to come in at this point.

Lord Howell of Guildford: Yes, I would like to pursue questions on benefits, but I should just declare a past interest: that I worked for six years in the largest Swiss bank in London, now even larger, because it has absorbed another one: UBS and Credit Suisse.

In the recent times there has been a period of extreme expansion of activity. In fact, somewhere in your papers you tell us that, between 2016 and 2022, financial services between UK and Switzerland grew by 53%; in other words, it is absolutely booming. I am not questioning all the wonderful work you have done and all the benefits to come, but there is a saying, "If it ain't broke, don't fix it", so what exactly are the huge gains that are going to be achieved over and above the enormous successes that are going on now?

Richard Knox: I will give you three answers to that question. First, this is a different kind of arrangement on wholesale cross-border financial

services from one that has been done with any other jurisdiction. There is an element to this in which it is demonstrating what can be done to support wholesale financial services between two like-minded, sophisticated, well-regulated jurisdictions; something that both the UK and Swiss sides want to demonstrate. That is partly put in the context of, as I said, the change in the way that global wholesale financial services have been regulated. It is a statement of intent, if you like, or a demonstration of the way that we think cross-border financial services can be regulated.

Secondly, it will genuinely provide more stability and certainty for firms that are looking to provide cross-border business between the UK and Switzerland. It is great that it has grown by 53%, and this helps lock in, at the very least, that additional activity that is happening.

Thirdly, it provides material new market access as well. So again, it is great that it has gone up by 53%; it can increase further, and activity can be undertaken between the UK and Switzerland that was simply not possible before in the area of insurance.

Lord Howell of Guildford: If it had been in existence a couple of years ago, would it have meant that when one huge Swiss bank has, in effect, collapsed into another Swiss bank and created a whole range of benefits, but also problems, we would be finding there was a sort of backwash for these problems coming to us rather more quickly under these new arrangements?

Richard Knox: That question relates to the issues that those firms face, but also the supervision of those firms, both in Switzerland and the UK. The benefit of this agreement—and there already was very good supervisory co-operation between the PRA, FINMA and the FCA—is that this will deepen that arrangement. There will be new memorandum of understanding that will be agreed between the UK and the Swiss regulators². I do not think there are any particular financial stability or market integrity issues that arose from the events around Credit Suisse, but to the extent that there were, this agreement will deepen the interaction between our regulators.

Lord Anderson of Swansea: The response of the private sector all seems so very positive. During the course of the negotiations, were there any particular criticisms of the negotiating process or the areas that you were covering, which you had to remedy?

Richard Knox: Part of the context for that is, as I mentioned, this is a genuinely new way of managing cross-border business. The starting point was that the UK and Swiss regimes were already broadly quite open: we had a global financial centre, an open overseas perimeter, and the Swiss were already quite open. But there were, nevertheless, issues around stability and also some niggles in the way that the cross-border regimes worked between the regulators.

² This will be agreed before the agreement is in force

The private sector was very supportive of demonstrating that this kind of arrangement was possible, and very supportive on the UK side of us trying to open access for the insurance sector as well. You will be hearing from the domestic UK industry perspective later so you can ask them, but they were very supportive of what we were trying to achieve.

The Chair: Baroness Kingsmill, you wanted to ask about the negotiation process, I do not know if you want to just follow on the answer that has just been given to Lord Anderson?

Q2 **Baroness Kingsmill:** Yes, I will just declare a potential conflict; ages ago I was an adviser to Coutts and we obviously had quite a lot of dealings in Switzerland, and the first chair of Monzo Bank, but of course that is a retail bank and, as yet, it is not getting too involved in wholesale work.

What is interesting to me about the negotiations is what the priorities were, as far as you were concerned. You mentioned stability, but what were the sticking points? What were the things that were tricky about this negotiation?

Richard Knox: I am not sure whether you have seen it—you have it in your material—but the genesis of the negotiation was set out in a joint statement in June 2020 between the then Chancellor and the Swiss Federal Councillor; that set out the overall priorities quite well. As I said in my previous answer, broadly those priorities were shared between the UK and Switzerland because, as open financial centres, we both wanted it.

Baroness Kingsmill: Were you personally involved in the negotiations?

Richard Knox: Yes. I was the chief negotiator, indeed, yes.

Baroness Kingsmill: That is why I am asking you for your insights rather than for what was in the papers.

Richard Knox: The reason I started with that was to say that there was a huge amount of common ground between us and Switzerland in what we broadly wanted to achieve. Part of the context for this is that there is not a precedent for this kind of agreement out there. Tell me if you have found one, but we have not found one; it genuinely does not exist. There are some precedents of quite narrow mutual recognition agreements between certain jurisdictions in very specific areas, but this is a very broad cross-sectoral agreement.

The challenges that we had—or sticking points if that is what you want to call them—as we worked through with the Swiss were: how do you design an agreement like this? How do you characterise the nature of the sectors that you want to cover? How do you establish the international agreements on cross-border provision of services? How do you undertake the recognition and assessments that we had to do?

In the UK, we, and our independent regulators, undertook very granular assessments of the Swiss system, particularly in investment services. In turn, the Swiss undertook granular assessments of our insurance sector to assure themselves that they were comfortable with cross-border services being provided. We had to be comfortable that we were then doing that in a way that we were both satisfied with. Then, critically, we had to be comfortable with the risks, financial stability risks in particular, that we could be incurring, and with our independent regulators on both sides making sure that appropriate safeguards for the way in which financial stability and market integrity risks were being managed were built into the agreement. That sounds slightly boring and technical, but those were genuinely the trickiest things that we had to work through between us, to make sure that the agreement was mutually beneficial.

Lord Fox: That is really interesting. In response to a previous question you talked about locking in relationships across the two sectors, and obviously both Switzerland and the UK have markets and competitors in the EU. I wondered how much of this deal is in a sense a defensive deal as much as an offensive deal; in other words, to cement in trade which might otherwise leak out elsewhere.

Richard Knox: I genuinely do not think we looked at it that way and, as was mentioned, trade has been increasing quite substantially between the UK and Switzerland. I think it is still true—it certainly was the case—that the UK and Switzerland were the two biggest financial centres in the continent of Europe as we went into negotiation.

Lord Fox: But it was you who used the words “lock in”, so if it is not locked in, it is going somewhere else. It was that which made me think that way.

Richard Knox: This goes back to the point of demonstrating the way in which wholesale financial services cross-border trade can be done—maybe we will come on to this later in this conversation—in most jurisdictions the way that cross-border financial services are regulated is essentially a unilateral domestic matter. What we have done here is create a mutual recognition agreement that provides a legal architecture in which both sides have agreed that they will continue. In that sense it is locked in, it was not a sort of competitive point with respect to other jurisdictions, if that makes sense.

Lord Marland: When I read the agreement, I was struck that actually this is so much more beneficial to them than to us. We are a £70 million market; they are a very small market and they already have a big footprint on insurance and other things. I am really trying to work out where you think the major benefits for our retail operators are in operating in Switzerland.

Richard Knox: This agreement is essentially a wholesale agreement and that was our intention from the very start. It was not a retail agreement, for a whole range of reasons, one of the key ones being that if you start to get into cross-border provision of retail—

Lord Marland: But the wholesale area is so small: you have commodity dealers and obviously a degree of banking, but it is not very appetising for our bankers.

Richard Knox: The majority of the agreement is in areas which are a strength of the UK, whether it is investment services, asset management, et cetera. That was a criticism that our Swiss counterparts had, "Why are you doing an agreement which is primarily in areas which are a strength for the UK?" Broadly speaking, what we are doing is creating a structure which provides stability and assurance for businesses where the UK has a natural and incumbent strength. What we have also done as part of the agreement, which I do not think has been done before, is open up the Swiss insurance market where previously it has never been possible to provide wholesale or any cross-border services from the UK into Switzerland. Obviously, insurance is also a major strength of the UK financial services sector.

The Chair: Can I just follow this up? I asked you earlier to give some numbers in relation to this, in terms of trade volume or value, how much of the UK financial services industry this will cover. Can you give us some numbers?

Richard Knox: I think the latest headline number is £3.9 billion, which is a slight update on what was in the document that was released. That is the latest data from the ONS as the cross-border total aggregate trade value. The ONS unfortunately does not really break it down beyond that, except from financial services and insurance, so that £3.9 billion is a roll-up of those.

That puts Switzerland as the third-largest counterpart in terms of trade, behind the US and the EU. It is very hard to start to break it down beyond that. You are talking to industry counterparts later, but we had extensive discussions with industry and it is quite hard to match that top-down number, which is the only real aggregate number you get with a bottom-up number.

The Chair: That certainly gives us an idea. I am going to turn to Lord Hannay of Chiswick, please.

Q3 **Lord Hannay of Chiswick:** Yes, I am declaring an interest first as a member of the advisory board of the Centre for European Reform; the chair of the European & International Analysts Group; and a member of the European Leadership Network, mainly concerned with security and defence issues.

Could you perhaps compare and contrast the difference between the mutual recognition approach that this agreement contains, and the use of equivalence assessments, which of course exist between the EU and the UK? In the case of one product, the EU gives us equivalence and we give equivalence to it in rather more, particularly since last week, when I think you opened that further. Could you compare and contrast that?

When it comes to regulatory discussions, which I think you mentioned as

being part of this agreement, could you compare and contrast that with the MoU which is now in force between the EU and the United Kingdom?

Richard Knox: The fundamental difference between this and equivalence is, as I was saying before, this is a mutual agreement, so we have signed this agreement with Switzerland which binds us into a set of mutual processes that you can see there. It covers entry into force, withdrawal, commitments around timescales if anything changes, regulatory co-operation, and what we would do when we change regulation. None of that exists in an equivalence regime.

I would slightly broaden that out from the EU and the UK's inherited equivalence regimes. Many jurisdictions around the world have these kinds of regimes, they are essentially domestic processes. The US has substituted compliance, for example. Obviously, one would hope that those decisions are taken in consultation with the partner jurisdiction, but they are domestic processes.

The Chair: By which you mean fundamentally unilateral?

Richard Knox: Yes, autonomous, unilateral. This creates what I would say a very different structure, where the UK and Switzerland have, across the broad range of wholesale financial services, undertaken to allow provision of cross-border services between us within a mutual architecture where we have a joint committee, rules of engagement and rules for how those services can be provided and withdrawn. Sat underneath that obviously there are similarities and, as I said earlier, we made assessments of the Swiss regime, and they made assessments of our regime, which are important components of how an equivalence regime works. I would say it boils down to: are the counterpart jurisdiction's rules and regulations sufficiently similar that you are comfortable to allow those services to be provided? But the difference is the architecture around them, and the commitment to discussion and negotiation.

Lord Hannay of Chiswick: Am I right in grasping from that, that you are saying that basically there is not a very big difference between an equivalence regime and a mutual recognition regime in its operation so long as it functions? But the degree of security of having a mutual recognition regime, such as you have with Switzerland, is greater than the degree of security from equivalence, which can be withdrawn by one of the parties without any necessary consequences for the other?

Richard Knox: Yes, to an extent, although that stability and certainty are important, but of course you need the agreement to be in place. So if an equivalence regime provides exactly the same market access as the analogous mutual recognition, then the additional benefit of mutual recognition will be the stability and certainty. But of course, what you have in this agreement is very broad access as well, and new market access that you would not have had before.

Lord Fox: I should have said that I have no relevant interests to declare.

It is a great shame that Lord Grimstone is not here, because he and I worked long and hard into the night on the Professional Qualifications Bill. You talked about this mutually recognised architecture: it seems to me that when we put the Act in place we created an architecture for the accreditation of qualifications, and the architecture that you now have within this agreement is substantially different. So I wonder, first, what advice did you get from the relevant accreditation bodies when you were negotiating this, and how you squared the circle between the Act and the agreement?

Richard Knox: I think I would be right in saying that these relate to fundamentally different activities, because what this is about is what is provided for in financial services law: what you are legally permitted to do as a UK legal entity in terms of selling a derivative or something cross-border.

Lord Fox: That was not my impression, but I am happy to be convinced otherwise.

The Chair: If I may, Lord Fox, I am going to suggest this: Mr Knox, do you think you could take this question away? It is important because a lot of time was spent on the legislation Lord Fox has referred to, and could you or your office, your team, come back with a rather more detailed answer?

Richard Knox: Forgive me, I was asked about the UK-EU MoU, so I am trying to—

The Chair: You are being asked about the professional recognition.

Richard Knox: Sorry, but I had a previous question about the UK-EU MoU.

The Chair: Okay, what would you like to say?

Richard Knox: Just to say that that is a structure that was put in place to provide a regulatory dialogue between the UK and the EU. It does not provide for any rights for firms to provide services cross-border, so it is a very different entity; it is not an agreement of this kind.

Lord Hannay of Chiswick: The first joint communiqué that was issued after the memorandum of understanding, the first meeting, was quite eloquent about the benefits that there have been from comparing notes on regulatory regimes, and the possibility of even moving on to discuss issues like equivalence. So presumably you would agree that the MoU with the EU is a sort of living animal, which can develop as time goes on and as confidence is built up?

Richard Knox: Absolutely, and obviously we have dialogues of that kind with other jurisdictions as well, such as the US, Japan and Singapore. They are incredibly important and valuable, and those are really important fora in which to discuss potential for these kinds of agreements.

The Chair: Changing gear slightly, may I go to Lord Boateng?

Q4 **Lord Boateng:** Yes, thank you, Chair. I declare my interest as an independent non-executive director of a UK-regulated bank, the Ghana International Bank, and as a board member of the Syngenta Foundation, a not-for-profit organisation promoting sustainable agriculture, regulated by the Swiss authorities.

What work is under way to ensure that this agreement is implemented effectively, and how will the agreement be monitored? What is going to happen when either party wants to update its regulations? Could you say something specific about the protection of the interests of the consumer of financial services in both Switzerland and the UK, and how that can be strengthened through a measure such as this?

Richard Knox: Certainly. Let me briefly go through the steps to implementation: obviously, we need to pass through this CRaG process, then, at high level, we need to lay domestic statutory instruments to give effect to the agreement in the UK.

The Chair: Does it need primary legislation?

Richard Knox: No, I will come on to that. As I say, the regulators are closely involved in this: they need to implement their part of the agreement, which includes signing MoUs. I should say that, obviously, the Swiss process is very different. In terms of legislative implementation in the UK, the Financial Services and Markets Act 2023 made specific provision in there and provided a power for the UK to implement MRAs. So there are certain things that we will need to work on in order to give effect to the agreement, which will be affirmative procedures that I expect we will carry out later this year.

Our regulators will need to enter into a memorandum of understanding; we will also need to provide them with the powers that they need under the agreement to implement the safeguards. We will come on to this but as I said earlier, in entering into a deep agreement of this kind it is important that we manage the financial stability market integrity risks, so we need to provide powers to our regulators to be able to switch off the agreements, if absolutely necessary.

Those are the key steps for implementation, and then there are a whole set of things that we will be able to do as the agreement comes into force and is active. Obviously, we will monitor the aggregate data and the trade between the UK and Switzerland on financial services. We will engage closely with the industry; we want this agreement to be used and so we will continue our close engagement with it. Actually, as part of the agreement, as firms use certainly the new elements of the agreement, they will need to register so we will have actual direct data and information about who is using the agreement and to what extent.

Then, on how we manage the risks of the agreement, the first thing to say is that this is a wholesale agreement and not about important issues such as consumer protection because the counterparts would not be retail

consumers. What we did as part of the agreement, which I referred to in an earlier answer, is we made sure that both the Bank and the FCA had appropriate visibility and powers to intervene if there were concerns about the provision of services from Switzerland into the UK. That is one of the key reasons why they will sign an MoU between FINMA and the FCA, to have that deep exchange of information. If any concerns arise, there are bespoke powers in the agreement, which I hope will never be needed, that allow the FCA and the Bank to switch off the provision of services in direct response.

The Chair: That is what you referred to a few moments ago, the switching off?

Richard Knox: Yes.

The Chair: How is that done?

Richard Knox: It depends. There is a very broad prudential safeguard, which would mean that if the Bank or the FCA had imminent, very serious concerns about financial stability risks they could immediately take steps to switch it off; otherwise, there is a process of information exchange between the regulators and FINMA on whether there are concerns raised³. If there are concerns raised and they are not met then the Bank or the FCA, when we have implemented this new power, will be able to prevent specific firms providing all or some services under the agreement.

The Chair: Lord Boateng, I slightly interrupted your questioning. Is there anything else you want to ask on this topic?

Lord Boateng: In terms of updating, are you monitoring it constantly?

Richard Knox: Yes. Is your question about what happens if we change our regulation, or how we update agreements?

Lord Boateng: Yes. If we identify a particular threat in the market, an interest that does not seem to be of much concern to the Swiss, or they, for their own reasons, are lagging behind in something we have identified, how is that handled?

Richard Knox: A lot of what has taken place in the last two years has been a very thorough assessment of the Swiss regime, and they have undertaken a thorough assessment of our regime. We hope we begin from a robust starting point and we would not expect it to happen but, if issues were to arise, if the Bank or the FCA became aware of concerns about a firm providing investment services into the UK, for example, they would trigger the mechanisms I have talked about.

There is a slightly related, but different, question which comes back more broadly to how equivalence operates if one jurisdiction decides to take a very different direction in terms of the way they choose to regulate their financial sector. Again, there is a whole other structure in here which

³ This is the Host Intervention Power as set out in the investment services annex

goes back to the point about the mutuality of the agreement. If, for example, the UK decided to depart very significantly from our current regime for insurance regulation, we would notify the Swiss that we were doing so. They would examine our new regime. There is then a process, established in the agreement, where they would say, "We are concerned about this", or, "We are not concerned about that". If they are concerned about it, then the structures of the agreement are intended to support the ongoing provision of the services. If they were irreconcilable and there was a fundamental problem, there is a mechanism by which that particular avenue can be switched off.

However, the point is there is a clear mechanism and process set out. It provides certainty and stability to all parties, including the users of the agreement. It provides a mechanism to prevent the ultimate happening, it being switched off, and it is visible and transparent to all concerned.

Q5 Lord Hannay of Chiswick: Does this consultative process which we have talked about cover a discussion between us and the Swiss of the application of sanctions against Russia in the financial services sector? Would it be a way of following up concerns we might have, or they might have, about the way they were operating?

Richard Knox: Not directly. This is about the direct provision of services cross-border. There is a joint committee under the agreement, and there is a financial dialogue on the agreement. A political matter such as that would obviously be a subject for discussion⁴, if it needed to be, state to state between the UK and Switzerland either in a joint committee or as part of the UK-Swiss financial dialogue.

Lord Hannay of Chiswick: We would not hesitate to raise an issue in that process through this joint consultation if we thought that Switzerland was being used in some way or another in the financial services sector to evade sanctions?

Richard Knox: The annexes of the agreement are about the provision of services. If we had a concern about something coming from outside, which was a differential application of sanctions, it would absolutely be a subject of discussion between the UK and Switzerland in our regulatory and financial dialogue.

The Chair: Lord Anderson, would you like to come in on this point?

Lord Anderson of Swansea: Potential points of conflict: new developments, you say, are dealt with, or would be dealt with, in the joint committee. Is the process sufficiently flexible to deal urgently with problems? Am I correct that the joint committee meets only annually?

Richard Knox: Yes, there would be an annual meeting⁵. If everything was going well, it would review how the agreement was working and the

⁴ If it affects the agreement

⁵ The Joint Committee shall meet at any time at the request of either Party, or at least once a year

mechanisms that were in place. There is certainly no sense in which, in some of the, I hope, extreme scenarios I talked about where something problematic was happening in the market, or there were certain concerns about a Swiss entity, we would not wait for the annual meeting for that to happen.

One thing to emphasise for such issues is that we in the Treasury look to the PRA, the Bank of England and the FCA to manage those. Equally, my counterparts in Switzerland would look to their regulator. We would expect that to happen in real time, and that is why they would have the memorandum of understanding between our regulators and theirs.

When it comes to the annual meeting, I am sure there will be reflection and discussion if anything had happened throughout the year, but we certainly would not wait for that to take the action necessary.

The Chair: Thank you. Lord Howell, the extension of the agreement to other areas of financial services was something you wanted to ask about.

Q6 Lord Howell of Guildford: Yes. We have heard that this is wholesale rather than touching the retail side. Do you see it in terms of moving into larger areas as time goes by? What sort of remaining sectors of financial services are there to conquer, as it were, in this area?

Richard Knox: That is explicitly foreseen in the agreement because it is a very dynamic sector and things can change. Having said that, we have covered a very broad range of wholesale markets, but you can never really foresee what might happen.

There is one area that was explicitly referenced in the agreement itself: sustainable finance. There is an enormous regulatory debate about the transition to net zero, the role that the financial sector can and should play on delivering net zero and, in particular, disclosures.

You may have heard about things such as taxonomies and disclosure requirements on firms, both in the financial sector and the real economy, and about the alignment of their investments or activities with net zero. There are a multitude of policy-making processes around the globe, and obligations being created on firms to fulfil those kinds of disclosure requirements. One thing the industry rightly says is that you should think about how cross-border firms can manage a multitude of different obligations and avoid duplicity and overlapping or underlapping requirements.

The regulatory framework, both in the UK and Switzerland, is not sufficiently developed to have a meaningful conversation about that because we are both creating the rules at the moment. However, it is a really good example of where, once we both have a disclosure framework in place, we would want to have a discussion to make sure, if we can, and again it comes back to undertaking the assessments, that a UK firm has to disclose these things only once to both the UK and Swiss authorities. That would be the ultimate aim.

The answer to the general question is yes. We explicitly would like this to be a living agreement, and it is a specific example where there is obvious merit in the reasonably foreseeable future, of where you could expand the agreement.

Q7 Lord Udney-Lister: I declare my interests. First, I am an adviser to HSBC Bank, which holds subsidiaries and branches within Switzerland. Secondly, I am a director of a small emerging markets fund which also has a subsidiary in Switzerland. Those are my declarations.

My question, which the Chairman has to some extent already signalled to you, is how much could this agreement be a blueprint for other countries? If so, which ones do you have in mind?

Richard Knox: The basic answer is that it is quite early days. Obviously, this agreement has not been implemented yet. Nevertheless, we do think it is a very good agreement and it was part of the rationale, as I said earlier, of putting it in place as we think it is a better way of managing cross-border wholesale financial services.

The real question is what would any other jurisdictions' appetite be for entering into an agreement such as this? There will be a political element to it but, frankly, it is hard work. It is a huge amount of effort to do the work, so they would really need to invest resources into doing it. It is really too early to say.

On who you might think about, the rationale for doing this with the Swiss was that we had a very good, close relationship between us and them, and our regulators. They are a very advanced and sophisticated market and had an appetite to do an agreement such as this. Whether there are other jurisdictions that fulfil all those criteria remains to be seen.

Lord Boateng: I wonder whether you can help us on that, Mr Knox. On 9 June 2022 you attended the inaugural Financial Regulatory Forum with Japan, did you not? The communiqué there said: "Both parties also reaffirmed the importance of deference and noted that they will continue to cooperate to seek out mutually beneficial opportunities to defer to each other's regulatory and supervisory regimes". It goes on and on in that light. Is Japan one of those countries where you might want to proceed with an agreement such as this? If not, why not?

Richard Knox: That partly goes back to the conversation we were having earlier about the nature of this agreement and the link between that and other deference arrangements. We think it is a good agreement. What you read there could equally apply, partly because this is a very new agreement, to equivalence arrangements. The US calls them substituted compliance; the Japanese will call them something else. We have a long-standing view that these kinds of arrangements, whether they are autonomous, unilateral, or mutual as this one is, are beneficial and a good thing to support cross-border global financial services. What you cited there was a mutual aim between us and Japan to support deference arrangements, whether they are autonomous or mutual, but this is a new and different thing that we have done with Switzerland. I

would hesitate to say that definitively means that the Japanese have an appetite for this kind of broad—

Lord Boateng: Does anyone? The reason why Lord Howell asked the question is because this is presented in press releases and the communiqué as something new, something novel, something to be emulated, something we should be celebrating. Yes, fine, so far as it goes, but where is our ambition in this area?

Richard Knox: It is genuinely new and novel. The ink is barely dry on it, and we have not implemented it yet. We would see it as a good, important, and interesting model. Whether other jurisdictions agree, well, that is to be seen.

Lord Anderson of Swansea: It may be early days, and this is an early agreement, but will you agree Switzerland is a relatively easy one? There must be a limited number of countries in which we have sufficient confidence and trust, which must be at the basis of any such agreement—countries which have a lack of corruption, for example. Presumably, you are thinking of countries such as Singapore or Japan possibly, but are there no other countries where, given the need for confidence, this could be a precedent?

Richard Knox: There are certain clear prerequisites for doing an agreement such as this. One of them is our confidence and our regulator's confidence in their regime—

Lord Anderson of Swansea: Mutual confidence, yes.

Richard Knox: And, obviously, as you say, mutually, their confidence in our regime. There is a range of advanced markets around the world where we have good relationships, and our regulators have good relationships. Another prerequisite is whether those other jurisdictions—that is a matter for them, rather than me, to opine on, frankly—would have the interest, appetite, and the willingness to invest the resources to enter into an agreement like this.

Lord Boateng: Perhaps I might pursue this matter just a little further. When you send Ministers to various jurisdictions, does it appear anywhere in the brief that they should be suggesting or exploring the possibility of entering into such agreements? I have been to the Bank of Japan myself, in a previous incarnation, I know the sorts of briefings that Ministers get beforehand. To follow up Lord Anderson's question, is this something where there is political impetus behind what we are doing, or is it just nice to do if possible, and actually quite difficult?

Richard Knox: I certainly would not say it was easy.

The Chair: There speaks the chief negotiator of this one.

Richard Knox: A lot of this will be about other jurisdictions' appetite to do it. It is not necessarily about Ministers. We talked about the EU dialogue. We have a whole range of dialogues with other jurisdictions

around the world. We are not hiding this. We think this is a good agreement, and we hope that other jurisdictions will be interested in it, but it is genuinely early days.

The Chair: Let us get at this another way: it may be that you do know where you want to go, but would rather not say, which I might well understand, or you simply do not know at this stage. Can you tell us which side of that debate divide you are?

Richard Knox: We think that, with jurisdictions that meet the criteria I described, this agreement is good. It is beneficial. In theory, we would be very supportive of these kinds of arrangements.

The Chair: The reason for asking is because this committee is looking at this particular agreement. As you have rightly said, this is part of the CRaG process. It would be significant for us to consider whether it is a good agreement that can be applied elsewhere, or whether it is a one-off. That is where these questions are coming from. That is why we are probing a little, Mr Knox.

Richard Knox: I cannot tell you definitively whether any other jurisdiction would want to do this, but I have said that we would see this as a useful blueprint for others to think about.

Lord Anderson of Swansea: Have any expressed interest?

Richard Knox: I do not want to get into conversations we have had with others.

Lord Howell of Guildford: The gigantic elephant trampling around the room is our relations with the United States, and with the power of Wall Street and the dollar. Can you suggest in any way that pushing through this agreement is going to give us new opportunities in that direction, or have we got all the opportunities we need there?

Richard Knox: I cannot really speculate on other jurisdictions; this is an agreement we are doing with the Swiss. We are clear that we think this is a good agreement with Switzerland and it has potential to be a good agreement with others. Financial regulation in wholesale markets is a very complex area and it is very different in different parts of the sector and with different jurisdictions. Often you find the relationship between the UK and the US is very deep and strong on financial services, and they go back a long time.

Lord Hannay of Chiswick: The other elephant in the room is the European Union; would you regard it as a potential for an agreement of this sort if it showed the appetite for it? Would we show the appetite for it?

Richard Knox: There is not much more to say than what I have already said. We think this is a good agreement. Each jurisdiction has its established way of managing its cross-border financial services relationships. The EU has a well-established equivalence process. This is

a slightly different mechanism. Would they want to do this? It is hard for me to answer that question.

The Chair: Finally, is there anything else you would like to tell us?

Richard Knox: No. Thank you very much.

The Chair: Thank you very much indeed for your evidence, it was very helpful indeed. I am going to ask you and members of the public to kindly withdraw; we have another evidence session but I would like the committee to be on its own for a few moments before we start. Thank you all for your attendance.