



HOUSE OF LORDS

European Affairs Committee

Corrected oral evidence: The UK-EU reset

Tuesday 3 June 2025

3.35 pm

Watch the meeting

Members present: Lord Stirrup (The Chair); Baroness Anelay of St Johns; Baroness Ashton of Upholland; Lord Frost; Baroness Hayter of Kentish Town; Lord Jackson of Peterborough; Baroness Ludford; Baroness Suttie; The Duke of Wellington; Lord Whitty; Baroness Winterton of Doncaster.

Evidence Session No. 12

Heard in Public

Questions 130 - 144

Witnesses

[I](#): Miles Celic OBE, Chief Executive, TheCityUK; Professor Sarah Hall, Professor of Geography, University of Cambridge, and Deputy Director, UKICE; Caroline Dawson, Partner, Clifford Chance.

Examination of witnesses

Miles Celic OBE, Professor Sarah Hall and Caroline Dawson.

Q130 The Chair: Good afternoon, everybody. Welcome to this session of the European Affairs Select Committee of the House of Lords and to our latest evidence session into the Government's so-called reset with the EU.

I am delighted to welcome as our guests some witnesses this afternoon: Professor Sarah Hall, Caroline Dawson and Miles Celic. Caroline Dawson, I know that you had to reschedule your travel arrangements to be with us here this afternoon. We are enormously grateful to you for doing that; it is very kind. We are very grateful to have your expertise, along with your two fellow panel members.

The session is being broadcast. A transcript will be taken. It will be made available to you after the session for you to scrutinise and to correct any errors of fact that you see in it. The session was originally scheduled for an hour, but we do have a lot of questions and we have a lot of expertise, clearly. I know that the staff have checked with you and, if we have to run over a bit—up to, say, 90 minutes—that will be all right with you. That is very generous of you, so thank you for that.

I will get the questioning under way with a fairly general and straightforward, if somewhat mystifying, question. Financial services, which are of enormous importance to this country and our economy, seem to have featured not at all in the UK Government's attempt to reset their relationship with the EU. Would you agree with that? If you agree, why is that? Is it because the UK Government have other priorities or because the EU has been seeking to avoid the issue? I would be grateful to know your views on that. Professor, perhaps we could start with you.

Professor Sarah Hall: Thank you very much for the question, Lord Stirrup.

Broadly, I would agree that financial services were not central within the UK-EU reset and particularly were not central within the recent summit. I think that reflects a more long-standing position for financial services within the whole UK-EU relationship picture. They were not particularly central in the negotiations for the trade and co-operation agreement, and they have had quite a long Brexit, I would describe, as a result.

I think there are two reasons I would put forward as to why that might be the case. First, since the 2008 crash, UK Governments of different persuasions have struggled to think about how financial services fit within the UK's wider political economy. The evidence is very clear that financial services remain a central part of the UK economy, but how you balance that with questions around regional inequality, for example, has been a challenge. The position of financial services vis-à-vis the reset reflects that wider problematic.

Secondly, as we might come on to in the later questions, what might be available for financial services in a UK-EU reset could be quite politically

difficult to obtain and may not be as straightforward as some other asks vis-à-vis the UK-EU relationship. Maybe that also is part of the reason why asks from financial services perhaps have not been at the top of the list of either the UK's or the EU's position vis-à-vis the reset and the recent summit more generally.

Caroline Dawson: Yes, I agree with what Sarah says. There is maybe also a technical reason for this. I do not think that this is specific to the UK-EU relationship and the TCA. There is a broader theme with trade agreements that you do not generally get a huge amount in cross-border services, and financial services tend to be an even smaller part of that, a small part of cross-border services. I think that there was not an expectation that the TCA would do a huge amount in cross-border financial services. That is why we had the MoU on financial services on top of that.

We are seeing progress in terms of opening dialogue and discussion between the UK and the EU on financial markets and cross-border services, but in terms of concrete deliverables, there is so far that the reset can go that is useful as contextual support for financial services—things such as mutual recognition of professional qualifications, visa arrangements and short-term mobility. All these things are helpful for financial services and very important, but that detailed discussion on financial services I think is taking place elsewhere.

Miles Celic: I agree very much with the comments of my two fellow panellists. I would merely add that there has not been the political capital on the EU side that has been willing to be devoted to the issue of financial services, so it has not tended to be high up the agenda. That was the case during the Brexit negotiations; it appears to have been the case subsequently. With the way the UK-European financial regulatory forum and the MoU around that were essentially held in abeyance until the Windsor Framework created a sense of political will, there was almost a sense of it being held hostage for good behaviour in other areas.

There has not been the political capital on the EU side. Our sense is that very often we used to try to have these conversations in most member state capitals—certainly the conversations that we have had—and financial services is not a priority in most EU capitals, whereas agriculture and a lot of goods trade tend to be.

The Chair: That may be the case as far as the politicians are concerned, but since it was kind enough to trail our meeting this afternoon, perhaps I could return the favour for the POLITICO Pro morning financial services UK newsletter. It says, "As readers of this newsletter will know, the City has been almost entirely left out in the cold, which is not what the industry on either side of the channel wants". Is that your perception too, that the industry on the European side would prefer greater engagement, as well as industry on this side?

Miles Celic: I am very happy to start on that. We have a series of dialogues with key European industry counterparts, which we either run

ourselves or do in co-operation with our partners at the City of London Corporation. Certainly, over the last few years what we have seen is more of a willingness on the European industry side to explore where the areas of potential co-operation and mutual interest might be. For instance, what we found during the Brexit talks was that the industry on the EU side was not terribly keen to raise its head above the political parapet. It very much followed the political lead that it got from Paris, Berlin or wherever it may be.

As time has gone on, growth has become more and more of an imperative, the situation has perhaps become slightly less transactional and a little bit more dynamic, and a lot of the political noise around the Brexit process has fallen away, we have found ourselves having more ambitious and pragmatic conversations with the European industry. There have been issues, for instance, around euro clearing, what the future of the capital markets union or now the savings and investment union might look like, and what role there might be for the UK or Switzerland in that. These are conversations that I would say are at relatively early stages. Where there is absolute consensus between the British industry and the European industry is to avoid unnecessary fragmentation and friction in the relationship.

Caroline Dawson: I would echo all that. For a lot of my clients, thinking of it as the European industry and the UK industry is maybe a slightly artificial distinction because they have group-wide presences across the whole of the EU and the UK. If we are looking at things like market infrastructure, European market infrastructure is just as important as UK market infrastructure. Having that cross-border framework working seamlessly is fundamental.

Professor Sarah Hall: I would just add that maybe it is helpful to think about this as a two-stage process. The first stage of the process was managing risks around a reduction in market access following the UK's departure from the EU. That was mitigated relatively well. The second stage, then, is how you secure the depth of, in particular, London's financial markets in the new UK-EU relationship, a more forward-looking set of conversations. I think that is the place that we are in now. That is where potentially there is scope and ambition from market actors that operate in a cross-border fashion to seek some improvements in that area.

The Chair: Thank you very much.

Q131 **Baroness Winterton of Doncaster:** Mine is rather a follow-on question. I hope you will forgive me, but I have to leave fairly shortly.

Basically, you outlined a couple of things, visa arrangements and cross-border recognition of qualifications. Is there anything else that you would add to your assessment of the summit and the implications for the financial sector? Perhaps turning it on its head slightly, what are the implications of it not being considered there that need to be addressed quite quickly? You have touched on some of them that might be for

future discussion, but are there any negative effects that are happening immediately that could be addressed?

Miles Celic: I do not think that there are any immediate negative effects that we could point to. I think it is positive. The key thing when we speak to our members and when we speak to our counterparts and to politicians and officials in other European states is that there is a sense that the relationship is the critical thing. You can have all sorts of structures in place, and we do through the forum that has been set up, but it is about how regulators know each other, how officials know each other, how Ministers know each other. That was naturally there when the UK was part of the European Union. I was talking to a senior ministry of finance official in one of our largest European counterpart markets, and they made the point that they would constantly run into their British counterparts and British regulators through the European structures, and now they do not. What has started happening in relatively recent times, and Covid unfortunately acted as a bit of a delay on this, is that this individual now comes over to London four times a year specifically to sit down with regulatory and ministry counterparts. So those relationships are building.

One of the things that is often talked about is the way that the relationship between the UK and the United States in financial services is as deep as it is, despite the fact that there were no structures between the US and the UK in the way there were between the UK and the EU when the UK was a member. It is a relationship of trust. It is because you have regulators who know each other, who trust each other, who pick up the phone on a regular basis.

The biggest advantage of the summit and the Windsor Framework beforehand that we would point to is not necessarily something granular, although I am very happy to go into some specifics that we would like to see over time; it is the development of a sense of trust, a relationship and a way of working together that will make those interactions much easier.

Lord Jackson of Peterborough: Can I ask a supplementary question?

The Chair: Please do, yes.

Q132 **Lord Jackson of Peterborough:** This is a bit niche, but as I have three experts here I will ask you. At the end of last year, the European Union brought in capital requirements directive 6, which prohibits the provision of cross-border banking services to EEA clients. While that will not affect consumers in the UK, it might affect our financial institutions. Do you have any views on that and the impact that will have? It seems to be a strange directive to have brought in.

Caroline Dawson: In terms of why it brought it in, it is not strange in the context of looking at the way that MiFID¹ has gone, for example. You

¹ Markets in Financial Instruments Directive

have increasing harmonisation of the European perimeter for cross-border investment services, and then in the context of banking union, firming up the European perimeter, CRD6 and the prohibition on cross-border lending and deposit taking fit within that same theoretical approach. What is unfortunate or unusual about CRD6 is the specific prohibition on cross-border lending, which has very limited exceptions and is, I think, causing a significant amount of concern.

If we look at the direction of travel of European legislation, we have some success stories or some good news stories with the level of extraterritorial application being reduced. CRD6 obviously is not one of those, but you can see a direction of travel with the EU thinking about its own financial services industry, thinking about how it services particularly European retail clients and the protections that are available to them. I think that CRD6 and the restriction are part of that package, but it was not subject to a cost-benefit analysis. We understand that the relevant restriction went in late in the process. Various commissions wanted to take it out and it was only really at the last minute that it ended up staying in.

It has been quite a difficult provision all the way through the legislative process and now that we are getting to a point where member states are implementing international law and UK firms, US firms and non-EU firms are looking at how they will comply with it, it is causing a lot of problems.

Miles Celic: I would agree entirely and I will just add two points specifically on that. First, if you look at Article 21c of CRD6, which is at the heart of the concern that you have raised, it very much reflects a wider approach that has been taken by the European Union, which it seems to have fallen upon and decided upon during the Brexit negotiations, which was characterised to us as a debate between market location and market efficiency. The EU has decided to take a market location approach, so to have greater visibility, control and regulatory oversight within its own borders of the activities carried out by third-country institutions or through third countries.

We were told by senior European politicians and officials that they recognised that this would come at a cost. It would make Europe less competitive and it would raise costs for clients, but it was felt that this was the appropriate point from a political perspective. This goes back to the concern that we as industry have had continually over the last few years, which is that the politics of this have normally trumped the economics of it.

Professor Sarah Hall: May I just return to your question? I wanted to make one point about the summit that I do not think has been made as much as it might have been. It is the connection between the discussions around youth mobility and financial services. It is important to note that financial services in the UK are genuinely international in a way that is not the case for a market like New York, for example. The research quite clearly shows that developing trust-based relationships through shared backgrounds, which may be shared educational or early career

backgrounds, has been important in developing and reproducing the international strengths of London.

Whatever form that scheme may or may not take, I think that facilitating international mobility at an early career point is something that should not be overlooked as being quite important in building the trust-based relationships that Miles has been discussing. There is quite a strong body of academic research to support that.

The Chair: That is a very interesting point.

Baroness Ludford: Are you meaning in a two-way direction?

Professor Sarah Hall: Yes.

Baroness Ludford: Young Europeans coming here and Brits going there, a two-way street?

Professor Sarah Hall: Yes, absolutely.

Miles Celic: I will just briefly add that there is also a body of research that shows that people who have either been educated or spent some time in their early careers in a country are more likely to invest in that country later on in their careers. There is an economic benefit that comes with that.

Q133 **Baroness Suttie:** In terms of the reset, how have the Government engaged and consulted with the financial services sector, including outside of London? I gather that up to about two-thirds of the industry is outside of London.

Miles Celic: I am delighted that you make that point. It is a point we always stress. Two-thirds of the jobs in this industry are outside the M25 and half the exports are from outside the M25 as well. It is a terrific cross-UK success story.

We have had very close engagement with government throughout this process. We saw Nick Thomas-Symonds a few days before the summit. We dealt with officials across governmental departments on a regular basis. We were asked to feed in thoughts and suggestions through our Europe Market Advisory Group and through the International Regulatory Strategy Group that we run jointly with the City of London Corporation. I would say that the appetite within government to hear about what the industry's priorities are was very high. They engaged very proactively as well as very responsively to the issues that the industry raised. After the summit, I spoke with a senior Treasury official to talk about what we might be able to do and how we might be able to go forward from this, using this as a foundation. I would say it has been a best in class example of engagement from government to the industry.

Q134 **Lord Frost:** You have explained why in your view the Government have not done much on financial services so far as part of the reset, and I agree. I think those were the reasons and are the reasons. Do you feel

comfortable with that or would you like the Government to be giving this a higher profile in the reset process? If so, are there specifics that the industry would want? I cannot help noticing, reading the material, that a lot of your asks are quite generic to the service sector: mobility, MRPQ. They are not really financial services specific. I would be interested in your thoughts on that.

Miles Celic: As you will be very well aware, business and investment are best done when there is an atmosphere of certainty. Things such as the EU data adequacy ruling and the temporary permissions regime on CCPs,² so euro clearing effectively, we would like to see some progress on. We think it is unfortunate that they remain in a temporary position. We think it is unfortunate that there are sunset clauses in there. We think it is in the best interests of both sides that there is progress on that.

We would like to see as an offer from the UK, although we think it would be a massively beneficial offer from the UK, a streamlining of the senior manager regime process that the FCA currently puts in place. We would be able to say, if a European executive or somebody operating as an executive in a European bank has been cleared by their appropriate authority, that they can be fast-tracked into the UK. We think that would make the UK a much more attractive place, so there would be a win on both sides.

I would emphasise the point that this is about developing a relationship and moving to a more dynamic relationship rather than one that has perhaps been a little more transactional and politicised over recent years. One of the points I would raise is that the EU is now the second largest market for financial services. It was the largest about 10 years ago. It was in relative decline against the United States. The United States is now quite clearly our largest market, but exports to Europe have been growing by about 10% a year. That is with a certain degree of friction in place. Removing that friction would help maintain that level of growth and possibly even increase it.

Caroline Dawson: I would echo what Miles said about certainty. I think there is some work that can be done from the UK side on the relationship, particularly looking at the body of onshored formerly European legislation that we inherited, which is scheduled to be repealed and replaced. We have seen two tranches of that legislation repealed and replaced and it has been a fantastic effort from the Treasury, but you would probably describe what has been done so far as fairly low-hanging fruit. It is all the things where there was a strong pressure from industry to remove particular things and to reform particular things. All those have been done, and now we are left with things like CRR,³ which is a horrific beast to try to repeal and replace while trying to implement Basel III⁴ at the same time.

² Central counterparties

³ Capital Requirements Regulation

⁴ A third set of international banking standards agreed by the Basel Committee on Banking Supervision in response to the 2007-2009 global financial crisis

There are clearly significant challenges, but what we do not have at the moment is, I suppose, a clear timetable for what the priorities are and when things will be put in motion. That causes a problem for the UK financial services sector because it is looking at an uncertain body of regulation that it knows is set to change at some point in the future, but we do not yet know how or precisely when. That means that from the EU side, even if there was the political will to give us equivalence decisions, it knows that it is also looking at a potentially changing body of legislation. Developing that certainty from the UK side would be tremendously productive.

If we are looking at the reset solely as being focused on the TCA, that is very much trade focused. If we are looking at financial services, we are looking at the reset and the TCA as being the backdrop for cross-border services more generally. The specific discussion about financial services needs to be had between the regulators and the legislators in the financial regulatory forum. It is obviously a forum for dialogue rather than decisions, but I think that the dialogue we have had so far is being tremendously productive there.

Professor Sarah Hall: I do not represent the sector, nor do I work in the sector, but from an academic point of view the research is quite clear that if growth is the guiding star of the current Government, it would seem slightly odd to me not to think about how a large, productive sector like financial services could be best supported. There is quite clear evidence for that. Every so often that cuts through. Andrew Bailey in a speech last week called for closer co-operation on financial services as a priority. I think there is that national macroeconomic argument.

I would also like to stress, and Miles has touched on this, that it is not important just for London. Something that goes under the radar a little bit is that we talk about how London's relationship is with Frankfurt and Brussels, but there is interesting evidence that financial centres like Birmingham or Leeds, for example, might be facing growing competition from places like Lisbon and Warsaw that offer a highly skilled workforce who speak English but have single market access. Thinking about how this is playing out for provincial financial centres across the UK as well as just London would suggest to me that there is helpful work that could be done in this area.

Lord Frost: To follow up quickly, when I ran a trade association I always used to say I wanted certainty for my members, but I knew you never got certainty and that is just the way the world is. It seems to me you get different kinds of uncertainty. When I read the evidence and listen to what you say, sometimes you seem to go in the direction of travel of wanting more transparency, more exchanges, more soft co-operation, if you like, with the EU, and at other times what you were saying, Caroline, was more about clarity on how quickly the UK was going to do things differently and get rid of the inherited legislation and so on. Given a choice between those two things, where would the industry go—or do you think you can have both?

Miles Celic: We would like to have our cake and eat it. You and I talked about this during the Brexit negotiations. This goes back to, first, what industry we want in the UK. The point has been made correctly that this is an international financial centre and it will succeed as an international financial centre: 80% of the business that takes place in the UK is international; 80% of the business that takes place in New York, roughly speaking, is domestic. It is about not just being able to trade with the European Union but being attractive for people, talent, companies and capital from all over the world. Particularly in the moment that we are in geopolitically and in terms of global economics and trade, that is especially important. It is about having the right blend of high standards, being attractive and the right regulation to attract that.

In terms of what that means specifically for the European Union relationship, we always knew there would be a process of parallel evolution once we left the European Union. The question that I always found slightly odd was: to what extent would the UK diverge from European standards? That suggested that European standards remained absolutely static, which they have not. They have themselves adapted. If you take Solvency II,⁵ Solvency II has gone through a UK reform; it has gone through European reforms as well.

My argument would be, and our members would argue, that the sensible thing would be to reduce unnecessary friction in the relationship, to be realistically ambitious in the relationship, to identify where there may be opportunities to deepen the relationship, to identify where those opportunities might not exist in exactly the same way, and to figure out where the political capital is to deploy on that. Are there examples that we could draw from other jurisdictions where we have had successes? The one I would point to would be the mutual recognition agreement with Switzerland,⁶ which is the best in class example that we have. The irony of that is that it is based, philosophically at least, on precisely the deal the industry originally pitched at the European Union for the relationship post Brexit.

Caroline Dawson: I am also a big fan of having my cake and eating it, but maybe just to clarify the point I was making, it was less about how quickly the UK can get rid of the onshored legislation. We have committed to do that in legislation. The question is: what is the timetable for doing that and how will that change?

Q135 **Baroness Ashton of Upholland:** I have a supplementary question on your 80% figure of financial services from external sources all over the world. Have we lost anything by not giving them access to the single market through London?

Miles Celic: There is a certain degree of counterfactual in that.

⁵ An EU Directive that came into force in 2016 setting out regulatory requirements for the insurance sector

⁶ Also referred to as the Berne Financial Services Agreement

Baroness Ashton of Upholland: What does that mean?

Miles Celic: We do not know what would have happened exactly if we would have stayed within the European Union, so it is difficult to say directly. The number of jobs in the industry is greater than it was before we left the European Union. The exports are greater. The direction of where the exports are going is shifting over time. I mentioned earlier that exports to the EU are growing by about 10%. To the US they are growing by about 12.5% per year. That is reflective also, candidly, of two things. One is the shift in where the global middle class is. The global middle class is growing particularly in Asia. The big growth markets over the long term will be China, south-east Asia and India. We are seeing huge growth in the Middle East at the moment as well, and the US continues to be this enormous economic powerhouse.

The other element comes back to the market location versus market efficiency policy decision that the European Union itself has taken. It has taken to a certain degree a more protectionist approach. One could argue that is partly as a result of one of the more free market voices in the European Union having left it, and that is certainly what we are told in some of the conversations that we have.

The Chair: Further on your 80% point, of that 80% international business, how much of that is with the EU as opposed to the wider world?

Miles Celic: If we look at the shape of exports from the industry, from recollection about 31% of exports from the UK industry are into the European Union; about 36% are into the United States.

The Chair: You clearly have to negotiate arrangements with everyone with whom you are dealing internationally. How, if at all, do negotiations with the EU differ from that? This is something that you have to do all the time, presumably.

Miles Celic: The point has been made that free trade agreements tend not to cover services, and they tend not to cover a lot of financial services in particular. The nature of how an economic relationship or a financial services relationship is developed with another market tends to be around the discussions between regulators. Often FTAs act as a gateway for regulators to be able to talk to each other and develop relationships. This is why the Swiss mutual recognition agreement is so interesting because it is the first time that two sophisticated international financial centres of that nature have, in essence, said to each other that—I am simplifying here—how you get to the outcome is not the critical thing; the critical thing is whether you reach the same outcome of a comparable quality.

The Chair: Do you have that kind of mechanism with the EU at the moment?

Miles Celic: Not in that way, no. The relationship with the EU is based on a series of agreements that have been built over time or in regulatory expectations that the EU has on companies that operate in the UK.

The Chair: Would it be fair to say, then, that in developing the relationship with the EU in financial services, what is important, certainly in the first stage, is not so much the agreements that are reached but a mechanism for facilitating ongoing discussions?

Miles Celic: First, it is about the mechanism that currently exists through the financial regulatory forum that exists, which is at the moment an information-sharing exchange. We would like to see that used in a more ambitious and more strategic manner so that the EU and the UK can turn up and offer more strategic and more ambitious opportunities and identify opportunities where we can deepen the relationship. That may be around, as I talked about earlier, some involvement by the UK over the savings and investment union. It might be through identifying some of the challenges that we have had through CCPs and so on, where we might find clarity and certainty. The sense that there is a single place where financial services access is negotiated does not work in quite that way.

Q136 **Baroness Ludford:** We were talking earlier about what changes we might want from the UK perspective. What about seeing it from within the EU? Are there particular member states or particular sectors that would like to see changes to the relationship affecting financial services? Are you hearing noises from different member states or different sectors?

Caroline Dawson: That is a very good question. I suppose I see only a sliver of this. At the moment, we are probably hearing the loudest noises in the context of CRD6 implementation and those restrictions on cross-border lending and cross-border deposit taking, which will come into effect in early 2027. There I think that people are thinking about the funds industry, Ireland's funds industry, Luxembourg's funds industry, and their access to external capital.

The Loan Market Association has a lot of good information on different corporate sectors and the amount of capital that they benefit from that is external to the EU. I think it probably keeps the data generally, but it specifically flagged it in the context of negotiating CRD6. When Sweden had the presidency of the European Council, it took the opportunity to say to Sweden that, for example, something like 90% of the funding for corporates came from outside of the EU—significant quantities of cross-border lending. I think that the Netherlands has similar numbers. You do not value something until it is taken away. As soon as a restriction is introduced, people start to realise that this is how it will bite. Those European jurisdictions that were traditionally very flexible in cross-border lending—the Nordics, the Netherlands, Ireland, Luxembourg—are all starting to become concerned about that.

Were you thinking particularly of Brexit and things moving away from the UK?

Baroness Ludford: Given where we are, we were talking about whether we can improve the relationship, and we were thinking about pressure from this side or not. Is there pressure from the other side? I must admit that even when I was an MEP my knowledge of financial services legislation was minimal. I did what Sharon Bowles told me to. I do not know where the origins and motivation of CRD6 came from and who wanted it. Was it pressure from the European Parliament? How did it end up where it did?

Caroline Dawson: The starting point was that there was a report by I think the EBA about cross-border lending but in the context of branches in the EU, so branches of non-EU banks in the EU doing lending business within the EU. The report flagged that there was a significant lack of harmonisation in how those branches were regulated. Jurisdictions like France, for example, apply dotation capital specific to branches that apply liquidity requirements. It is very similar to be a branch in France as it is to establish a subsidiary. You effectively have to be separately capitalised. You are treated like a subsidiary.

In other jurisdictions that is not the case at all, so it is much cheaper to set up a branch in a jurisdiction that does not apply those capital and liquidity requirements. The EBA was basically asking whether that leads to disparities, loopholes or gateways into the EU: "Maybe we should be harmonising branch treatment". Then someone at some point said that cross-border business includes pure cross-border business. We are regulating branches; we also need to regulate cross-border business. Then we found Article 21c get popped in, which I think was a surprise even to the Commission rapporteur who was leading on the dossier. It was not subject to a cost-benefit. I was at a conference—sorry, this is slightly apocryphal—and someone raised the question. The Commissioner in question did not know what the question was about, even though he was leading on it.

Baroness Ludford: It was a last minute co-decision thing.

Caroline Dawson: Yes, it was popped in right at the last minute. Then throughout the whole process various different presidencies tried to take it out. It stayed out for a very long time. The French presidency took it out originally. The Swedish presidency kept it out. It stayed out and stayed out, and then I think it was under the Germans that there was a political decision to swap. When you get into the trilogue process, people are getting down to negotiation and something was swapped for cross-border access. That is what happened.

Baroness Ludford: Are there any other examples?

Professor Sarah Hall: If we look at what has happened since the UK left the EU, the clearest signs of where the UK may be pushing at an open door is where UK asks align with EU strategic objectives and market actors. When those three things come together, I think you see movement.

The example I would give there is the clearing decision, which had a deadline of June 2025. The EU was very clear that that would not be extended. It wanted to develop its own capital market liquidity and capabilities as part of its wider open strategic autonomy objectives. However, we then saw, initially in early 2024, plans for more clearing activity to remain in London than had been expected, and then subsequently that decision was extended, despite previously saying that would not happen. For me, that was quite a clear indication where the EU recognised that the UK had capabilities in market liquidity and clearing that were not easily replicated within the EU. For a question of financial stability, it made sense to extend that decision.

There was also activity from market participants within the EU, within France in particular, making that argument. Where you see that coming together of market participant requests that align with EU policy objectives that align with what the UK is asking for, those three things in the round seem to be where the movement has happened so far.

Caroline Dawson: Although I would just say on the clearing point that EMIR 3⁷ is a clear—

Professor Sarah Hall: Yes.

Caroline Dawson: I think we are slightly losing the policy side of that, yes.

Miles Celic: I completely agree with what my fellow panellists have said. I would point to what Professor Hall has pointed to in terms of market participants, companies stepping up on the European side, particularly on euro clearing, and saying that this is just cost and no additional benefit. This is cost to the clients. It is friction in the system. The reason why you have large clearing operations in London and New York is a compression effect. It is a netting effect because it is a scale game. If there is a lot already happening here, you get far greater economies of scale and far greater efficiency.

As to your question, as a principle I think that doing what Sharon Bowles tells you always tended to be the best thing to do. Where we have tended to see the most interest in the relationship is among the five biggest partners that we have. It is Luxembourg, Ireland, the Netherlands, Germany and France. Those are the five biggest partners we have in financial services terms. The French approach, as I think is well documented, has been to look at Brexit as an opportunity. President Macron was very open about that. It has probably been less successful than they would have hoped. The Germans have taken a slightly different approach. With the Luxembourgers, the Dutch and the Irish there tends to be a more free market approach, an approach that recognises the importance and the utility of financial services within an economy.

⁷ European Market Infrastructure Regulation adopted in 2024

The problem, if I am candid, is that outside maybe a handful of other member states beyond that five, trying to have a conversation about financial services in a number of European capitals that do not really have significant financial services industries and have tended to look to London as their international financial centre means that the political capital they are willing to expend and the internal expertise on these issues tend to be relatively limited.

Baroness Ludford: The trick is to identify where there is an industry interest—pan-European, cross-channel, UK and EU market participants—plus some helpful Governments to try to find out where those sectors and those particular aspects of industry are. It is not UK versus EU; it is much more diffuse than that.

Miles Celic: It is not a monolith. The problem a lot of the time is that people look at the EU approach on this issue as monolithic and it really is not. It differs from member state to member state. Within member states it differs from department to department. It differs within the European institutions. It differs within the Parliament. The summary that Professor Hall gave was excellent. It is a question of finding alignment on particular strategic priorities, and one would hope that the tragic events in Ukraine may have had some benefit in Europe recognising that this is a time to look at where there may be areas of co-operation with the United Kingdom and Switzerland. It is about finding those areas of commonality and joint interest and then building a coalition around them.

The Chair: Baroness Ashton has a follow-up, but just before she asks it, could I ask you to use full names rather than acronyms? I come from a background that could not exist without acronyms, but just for the clarity of the wider audience it would be very helpful if you could. Thank you.

Q137 **Baroness Ashton of Upholland:** I wanted to take you back a little bit to what you said about trade agreements and link it to what you have just said about how the EU operates. When I was Trade Commissioner, the first trade agreement that I negotiated was with South Korea. Chapter 4 of the agreement is all about financial services. It is a huge part. It was in part because this country, as part of the EU, was very keen to get the benefit. While we were negotiating everything from cheese to pigs' feet to a whole range of things, financial services was core and fundamental. It was also core and fundamental to all the negotiations I did with the United States of America and it was core and fundamental to opening all the other trade negotiations I did. What has changed so dramatically in those years that now you are able to say that generally free trade agreements do not cover financial services?

Can I link it to something else you just said as well, which is this question of how the EU works? Because we are a third country, I think you have to look at the arrangement slightly differently. Can I ask you to think about how you talked about different departments and different bits of the institutions in different parts of the member states? You know that when it comes to negotiations with a third country, it does not, in my view, always work like that. We are a bit of an anomaly because we are a third

country that people have to get their head around, but it is the way of the EU to come up with a common position and a common negotiating stance. I am not saying you are wrong. I am just interested. What in your experience has so changed that now financial services are not in trade agreements and the way the EU works has changed completely?

Miles Celic: I certainly would not want to denigrate for a moment the work that was done around Korea or Japan or the attempt at the US deal. The industry was extremely grateful for the support that we had from you and many of your predecessors and successors in putting financial services into those deals.

This is a point that Lord Grimstone raised when he was the British Trade and Investment Minister, which is that particularly in financial services—and Lord Grimstone obviously had a glittering career in government and in industry—FTAs have historically tended to focus more on goods than on services generally. That is just the way that they have operated for a number of years. For an FTA where financial services are involved, there are often a number of very specific issues—I will come to one in a moment as an example—but it is about opening a dialogue between regulators. It is a calling card. The FTA ultimately offers the regulators the permission to speak to each other to identify how they can deepen the relationship. It does not tend to have a great deal within the FTA that immediately leads to an increase in trade. It is that it develops over a period of time.

I am afraid I cannot remember if it was you who did EU-Japan.

Baroness Ashton of Upholland: I opened it but I did not close it.

Miles Celic: EU-Japan was interesting because on data localisation it had within it a specific financial services carve-out, effectively. Data localisation was put in place for financial services between the EU and Japan. That was reflective not of a number of FS priorities; it was related to other priorities that fell into the system. When the UK renegotiated the Japan FTA, we took data localisation out. That was financial services, in essence, saying that this is creating a barrier, a friction between the UK industry and the Japanese industry. That has allowed for further conversations between the UK and Japan in terms of how we take that forward.

I would not for a moment seek to tell you how the EU comes up with trade negotiating positions, and common positions have been one of the strengths that the EU has when negotiating with the United States or other markets. What I was talking about was more around regulatory discussions and regulatory initiatives that the EU has taken forward, where I do have a bit of experience, having spent far too much of my life on Solvency II. You recognised that the French industry had a particular position that influenced the French negotiating position, the German industry had a different one, the Polish and so on, and that was ultimately how it would be taken forward.

Baroness Ashton of Upholland: Thank you. That is very helpful.

Q138 **The Duke of Wellington:** Listening to this extremely interesting discussion, I am wondering whether you think that recent geopolitical developments—for example, the new American Administration, Ukraine, the pandemic and various other things—have increased or changed the atmosphere, the environment, for trying to develop closer financial service relationships between the UK and the EU. Have they changed anything?

Miles Celic: I think they have changed the wider calculation around the relationship rather than necessarily immediately the relationship in financial services. What I would hope is that over time the role of financial and related professional services as an enabler for growth, as an enabler for investment in defence, infrastructure, regeneration and growth, will lead to a more pragmatic relationship between the UK and the EU. Certainly, our sense is that the actions of the new Administration have led to a reconsideration and recalculation in the EU of a lot of the way that it approaches the world. We have seen this with the response to the Draghi and the Letta reports. I am old enough in the tooth to remember various European reports that have come out over the years, launched with great fanfare and bad wine and often not going very far, but it feels that the political will on this occasion is a bit stronger.

Caroline Dawson: I would echo all that. The other thing is that potentially there is a risk that where you have situations like those overnight tariffs and then people scrambling to try to react to that, you end up with jurisdictions almost being set against each other. I think that we are in a good position with the relationship between the UK and the EU. For all the reasons that Miles has outlined, there are a lot of benefits to both sides from that relationship being stronger and strengthened. I think it is just a risk to look out for that when people start realising that they are being pitted against someone else, they start looking out for their own interests first and you end up with that localisation of regulation—people trying to bring things back onshore, trying to make themselves into a fortress rather than looking outward.

Professor Sarah Hall: There are clearly areas of shared concern between the UK and the EU in the context of financial services, where the US has pulled ahead. Both the UK and the EU are struggling to deliver significant economic growth. They are dealing with trying to fund an energy transition. They have ageing populations. As Miles said, you see this in the Draghi report, which was a report from within the EU that identified a significant investment gap in the EU that would not be filled without deep private market funding capacity, which would mark a change from the usual way of doing business, put simply, in the EU.

The counter to that is that opinions are divided as to whether the UK can manage its relationship with the US and the EU simultaneously; how effectively you manage that relationship is a challenge. In the context of financial services, you have seen this in relation to Basel III. These are rules, put simply, that are designed to make the banking system safer

after the 2008 financial crisis. The UK announced that it would delay its final implementation of these, essentially to wait and see a little bit what might come out of the new US Administration. That basically means that the timing of the introduction of these regulations is different between the UK and the EU. You can get de-alignment between the two parties, not because they are following different rules but because the rules that they are going to follow are implemented at different times. It is things like that where you can see potential tensions or risks, as Caroline noted.

Q139 Lord Jackson of Peterborough: By a number of parameters, the capital markets in the UK are twice as deep as those in the EU, it is generally accepted, in terms of maturity, liquidity et cetera. The Chancellor seems to infer that that is a boon for the EU and an asset for the EU. I just wondered what you make of that analysis. I have to confess that I do not understand why she would say that, but maybe you can make it a bit clearer for the committee.

Miles Celic: One of the points that I raised earlier was that a lot of Europe looks to London and the rest of the UK ecosystem as its international financial centre; it has historically been its international financial centre. When a European client looks to raise capital or to invest in their business, often—even if they do not necessarily realise it—that money will come from the UK. They may deal with their local bank in Berlin or Frankfurt or Milan or wherever it may be, but the capital will often come in from the UK. Certainly, during the Brexit negotiations one of the points that we raised was that it would be in the EU's interests not to make it harder to access British capital. As I understand it, what the Chancellor would have been saying is that the UK can do business with the EU, and the EU ought to be able to do business with the UK, and that we should not put barriers in the way of that.

One of the things that we grappled with as an industry during the Brexit talks was whether or not we and the Swiss could, in essence, talk about once the capital markets union was put in place—obviously the EU wanted a sovereign capital markets capability and it was not for us to interfere with that—how we might be able to reduce the barriers between the European capital market structure that was put in place and those in the UK and Switzerland, for precisely the reasons that you raised. If you put the UK and Switzerland together, the majority of capital markets activity in the European continent is outside the EU. If you look at the top 10 European financial centres, according to the Z/Yen survey, from recollection half of them are outside the European Union. I think the Chancellor's point is that the UK can be an asset for the European Union in capital markets terms, and that is something that would be in the interests of the UK.

Lord Jackson of Peterborough: Why has that never been leveraged? Mr Lowe from Flint Global told us that basically everything is becalmed; no one is that bothered now; everyone has got used to the post-Brexit settlement. Why has that UK advantage never been leveraged in terms of pushing for equivalence?

Miles Celic: I do not think it is for lack of trying. You would need to talk to the officials and Ministers who have been responsible for that directly, but certainly when we made this exact point to a number of people in the European Parliament during the Brexit negotiations, it did not get the cut-through that we would have sought. In one particularly unhelpful meeting, I remember that we were speaking to a German Member of the European Parliament who said, "We don't need access to British capital markets; we can get our money from China", which I make no comment on, other than to say that they saw this as an attempt by us—

Lord Jackson of Peterborough: How did that work out?

Miles Celic: Well, you would need to talk to them. I took that more as an example of, "This is you guys in the UK attempting to take an unfair leverage over us in the European Union, and we will not stand for it".

Caroline Dawson: To pick up on the point that Sarah mentioned earlier about CCP recognition, recognition of central counterparties, essentially central pools of risk mutualisation for settlement of securities transactions, LCH⁸ is far and away the biggest CCP in the EU. That is why we have this equivalence decision, because it is in the interests of European clearing members, people receiving clearing services, to be able to continue to access LCH. Maybe the distinction there between trading venues and CCPs is the risk that is bucketed in the CCP. The risk is mutualised between all the members of the CCP. You have this massive protection in LCH Ltd in London, and then trying to replicate that somewhere in the EU, you have CCPs such as Eurex which provide similar services. They are just much smaller. It takes time to build that. That has resulted in an equivalence decision that is still being rolled over.

Lord Jackson of Peterborough: It is the only significant one.

Caroline Dawson: It is probably the most important one as well, yes.

Lord Jackson of Peterborough: But it is only one.

Miles Celic: It is the one we would want if we had to pick one.

Caroline Dawson: It is the one we want, yes.

Q140 **Baroness Ashton of Upholland:** You have already talked quite a bit about the main question I was going to ask, which was whether the relative lack of EU equivalence decisions was not something of fundamental concern. That is the impression I get. If that is right, then I have a sneaky other question I would like to ask.

I was interested in what you were saying about regional centres, Leeds, Birmingham, and them having their relationships with other regional centres. Back to the point about trust and building relationships and the way that FTAs open up the opportunity for the regulators to talk to each other and the points about regulators coming to London regularly

⁸ London Clearing House

because they do not run into each other or to Ministers and others in the way that they used to in the regular—endless at times—meetings of the EU, how does that work for regional centres? When people come here to London, do they also go to Leeds and Birmingham? When we have people going out to capitals, do they also go out to the regions? Is it as effective a mechanism to use and rely on relationships of trust and simply seeing each other as having the rules or background ways of working that are stamped in law in some way?

Professor Sarah Hall: I will take the regional point first. My point there was that centres like Birmingham are facing growing competition from places like Warsaw. I think it is fair to say that the UK runs a very centralised legal and regulatory system for financial services, and one of the challenges for regional centres—you see this particularly in regional centres in the north of England and Scotland—is that when you lose headquarter activity from regional centres, their voice becomes harder to hear at the table in terms of what is required. There has been some evidence that that has been hard, particularly for Scotland post Brexit. Deeper engagement and understanding what the sector looks like in financial centres outside of London could be very helpful in more effectively representing what the needs and demands of those centres are.

On equivalence, I just wanted to make the point that equivalence is not a fixed thing. That sounds a bit weird, but the EU has a view of what equivalence is, and what happens in this debate is that we use equivalence in the EU version of it. The EU version of it is line-by-line equivalence: are the lines of regulation, simply put, the same? The UK has over a period of time developed what I would suggest is a slightly different understanding of equivalence, which is what Miles was talking about earlier, I think, which is what we would term outcomes based. That is looking at whether the end point when you have implemented those regulations is the same, even if the line-by-line detail is different. The UK has a more liberal approach to equivalence, I would suggest, and it is more outcomes focused.

It is important to make that point because since the UK has left the EU, there are examples of where the UK has developed and used that more outcomes-based approach to equivalence. The UK introduced a temporary permissions regime to allow activity that had been taking place in the UK before departure, put simply, to continue. There are other examples in other regulations where the UK has continued to develop this more outcomes-based approach to equivalence. Taken to its furthest extreme, you could argue that the Berne agreement goes even further and moves towards regulatory deference where you are, as the name suggests, deferring to the decisions of that counterparty's regulatory bodies.

It is quite important to make that distinction. The equivalence question may be relatively settled, first in that initial departure from the EU and managing the risks around that. I would agree with what you were

implying earlier, that that part is settled. I think that where and how equivalence might be used as part of broader regulatory conversations in terms of facilitating continued financial services market depth for the UK is still an open set of issues.

Caroline Dawson: I would agree with that. You are right that a relationship of trust is not a perfect replacement for something that is baked into the legislation, but as Sarah said, what is baked into the legislation is so different in different cases. Maybe the EU might disagree that what it has is line by line. It has made a number of statements claiming that what it does is outcomes based, but when you look particularly at the reports that ESMA⁹ produces leading up to an equivalence decision—because of the way that ESMA works it has to be line by line—it is very difficult not to take that into account in the ultimate equivalence decision.

Yes, you have equivalence in the EU. You have substituted compliance in the US. You have deference arrangements like the Berne agreement and recognition arrangements, but then you have exemptions and, I suppose, supervisory approaches to how business is done. Particularly if you are looking at cross-border business that is done either outside of the territorial scope of someone's legislation or within the scope of an exemption, or if you are looking at cross-border business between head office and a branch, then in all those things that regulatory trust is paramount. That obviously feeds into whether we get equivalence decisions as well.

Miles Celic: I completely agree with what my fellow panellists have said. I would just say on equivalence that it was particularly disappointing that the EU did not grant equivalence to the UK after Brexit, not least because our rules were literally line by line identical. They were the same rules. It was an interesting decision that effectively marked the EU deciding to move into the business of fortune-telling, because it had decided that the UK was going to diverge. The perverse outcome of this, which is a point the industry on both sides of the channel made at the time, was that this made it more likely that the industry would diverge. I would say that it was an unfortunate decision that was taken.

I completely agree with the points that my colleagues have made on equivalence more generally. I think that the approach the UK has taken on its own equivalence regime is right. The industry is very supportive of it. We think it is pragmatic. We think it is open, and we think it is absolutely right for an international financial centre that is ambitious to grow.

The way that the regional centres in the UK are growing is encouraging, and I completely agree that the competition will be quite interesting from certain centres in Europe. Job creation is marginally higher outside the M25 in financial services than it is within the M25. Two-thirds of the jobs in the industry, as has been said, are outside the M25. That proportion is

⁹ European Securities and Markets Authority

growing. What is exciting when you look at centres like Birmingham, Manchester and Edinburgh is the appetite to get out into the rest of the world, beyond the European Union, and grow the opportunity. I would recommend to the committee Scottish Financial Enterprise's strategy for growth, which I think it released last year, which is a terrific summary of how to promote and grow a key part of the British financial services industry.

The Chair: Thank you very much. We have another four questions that we would like to fit in if we can, so we might just need to pick up the pace a little bit and then we should manage it.

Q141 **Baroness Anelay of St Johns:** I would like to turn to something rather different. It is the professional side of what you do. I refer to the liberalisation of professional mobility as such. The written submissions we receive are always very welcome. We noted that a significant proportion of the asks that came from those who submitted their views in writing and that were from the financial services sector were all about further liberalisation of professional mobility. My question revolves around the fact that last month's so-called reset summit seemed to generate very little in the way of further liberalisation in that matter. Can you give us a flavour as to the reasons you think there are for that, shall we say, little movement in that area? How significant an issue does it remain with the financial services sector? Do you see any hope for the future for further liberalisation? If so, how and when do you see that happening?

Miles Celic: If we are looking at MRPQs, mutual recognition of professional qualifications, what was left behind in the TCA agreement between the UK and the EU was cumbersome and it has proved difficult. I think that under CETA (the model used for the MRPQ agreement in the TCA) only one judgment, one approval, has been made, which I think is architecture, if I remember correctly, but I could be wrong. The challenge has been that there has not been the progress that we would have liked because of a cumbersome and burdensome process.

Ideally, what we would like to see is more focus on that. Particularly when we speak to our legal services and accountancy members, there is a sense that there has not been the political will behind this. There has not been the focus on it on either side of the channel, to be completely honest. Although the approach taken by the UK—as has been typical, quite candidly, since Brexit—has tended to be more liberal and more open, what we have run into on the EU side has been a little more bureaucratic, if I am completely candid.

Professor Sarah Hall: I think the real point here is that an MRPQ is most valuable if it comes alongside mobility liberalisation as well. I think you need both. One of the big challenges on mobility is the way it has become politicised around the debates on UK immigration. That is possibly one of the reasons why progress perhaps has not been as fast as we might have expected.

Baroness Anelay of St Johns: I did note earlier that there was a

comment from you that some of the changes that might be wished for can actually be politically difficult to achieve. This is one of the areas where you are saying that is the case.

Professor Sarah Hall: Yes.

Q142 **Lord Whitty:** This question is also on qualifications. We have only just got on to it. I think Caroline Dawson did mention it right at the beginning, but we did not mention it again. Whereas with other services—more old-fashioned services, if you like, such as architecture, the legal profession and, indeed, academia—the mutual recognition of qualifications is almost their first point, does that not apply much to banking, insurance and other financial services? Or is it so obvious that you did not emphasise it or you do not expect to get much from it?

Miles Celic: It is less a case in banking, insurance and asset management, if I am candid. For our membership, it tends to be much more an issue where people have a particular professional qualification, say, in legal services or in accountancy. We find that where the skills dimension comes in tends to be more on the regulatory side. It is getting regulatory approval for people to be cleared to work in the UK. In the UK we have something called the senior managers and certification regime, which the FCA and the PRA administer.

There is nothing exactly like that in the EU, but there are comparable regimes. One of the things that I was mentioning earlier that we think would be an offer that would be beneficial to both the UK and the EU would be that the British regulatory authorities would say that if you have effectively been cleared to work at the upper levels of a bank in Paris, Berlin or Frankfurt, then we will fast-track you through the British system.

Lord Whitty: When we were members of the EU, did that work in your area?

Miles Celic: The SMCR did not cover most of our time in the European Union. It was put in place post financial crisis.

Lord Whitty: Which aspect of financial services would you say is the biggest problem on mutual recognition of qualifications?

Miles Celic: It tends not to be a major issue in financial. It is not something that our financial services members have tended to come to us on. I suspect there will be individual situations where that is a factor, but for the FS side of the industry it has not been something that we have particularly found as a core problem.

Caroline Dawson: As a lawyer, I am qualified to practise only in the UK, and if I go to France maybe I can comment on EU law, but obviously I am not French law qualified and I am probably missing about seven years of qualifying education. It is where you have to have a specific qualification in order to do your job in a country, and for financial services it tends to

be more about whether you have the relevant experience rather than whether you have X qualification.

Q143 Baroness Hayter of Kentish Town: I do not think it is relevant, but just for the record I was a member on the board of the ABI until recently. On financial services, I think you said earlier that because of the system we have, divergence was more likely, if you like. I am interested in where there has been any divergence. Solvency II was touched on. Was that the major one or are there other areas in which we have now diverged?

Miles Celic: There are a number of areas where we are going through a process of divergence that is relevant to the fact that we are now not part of a market of 500 million people, which was in large part or substantially in certain parts domestic to the European Union. We are now a market of 70 million people that serves pretty much the entire world. We need to have a regulatory regime that reflects that. Solvency II has been raised. Obviously, the European Union was going through a Solvency II review of its own. We now have Solvency UK as an example of that. We have seen changes on MiFID II on the European side and we have seen those on the UK side. There was the recent Kent review, which looked at research and how that would be paid for. At the same time, the European Union has also looked at small company research because it was recognised that MiFID II probably had not left that exactly where we would have wanted.

There has been a process where we have looked at various regulations and legislation that were put in place. When John Glen was City Minister, he ran 40 different consultations in terms of what would need to be changed to reflect the UK's different regulatory and economic position outside the European Union. That very largely turned into the Financial Services and Markets Act and it turned into the Edinburgh reforms, both of which were supported by the Opposition at the time, who are now obviously the Government. We have seen the Mansion House speech, the Mansion House accords and the Mansion House compact.

There is a process that is going on of the UK—you could use the word "diverging". I much prefer "evolving". It is evolving to reflect the fact that this is a fast-moving industry. It is an industry that is going through an enormous amount of change due to technology, geopolitics, regulation et cetera. It was inevitable that we would adapt our rules and regulations to reflect that, and the EU will do the same.

Baroness Hayter of Kentish Town: Is it causing problems or not?

Caroline Dawson: It very much depends on which piece of legislation you are looking at. On the point that Miles made earlier about parallel evolution and the fact that the EU is not staying still, we have legislation that is new in the EU since we left where we do not have the parallel—for example, a lot of the legislation on sustainability, AI and crypto assets, where we have taken a different approach to regulation. All that is new and specific to the EU. Where you have regulation in one jurisdiction that you do not have in another, that will always cause some kind of cross-

border barrier. That is no different from doing business in the US, where you have to comply with US regulation.

Where there is a particular concern is where you have duplicative legislation and duplicative requirements and it is not possible to comply with either the higher or some mutual standard. Where you have those situations like, as Miles mentioned, MiFID, the markets in financial instruments directive, and the fact that you have this slightly offset stage of the EU making some changes, the UK making some changes, the EU making some more changes, where you have cross-border business covering both those jurisdictions it becomes quite difficult first to remember which one has done what and then to try to make sure you are compliant in both jurisdictions. We see that with MiFID. We see that with EMIR. A lot of these are welcome changes, but you do cause frictions just by the fact that you are changing at slightly different times and slightly different things.

Baroness Hayter of Kentish Town: It is trade bodies in their jobs doing all the consultation.

You mentioned Mansion House, and I am interested in the relationship between your industry and your opposite numbers in the EU and how your sector sees the Government's efforts to try to encourage, maybe even mandate, pension funds to invest in UK assets. How do you think that will affect your relationship with EU partners? What have you heard from your opposite numbers in the EU about how they are reacting to that proposal?

Miles Celic: From an industry perspective, we would not support mandation. The vast majority of our members are uncomfortable with the idea and are keen to understand more about the powers that the Government are talking about or that they are speculating the Government might take on mandation. We would ideally like to see a sunset clause and some very high thresholds for the use of that. We think the risk is that you fly in the face of the fiduciary duty, and it is exactly the kind of political intervention into markets that tends to act to the detriment of investment.

It has not come up in any conversations that I have had in the European Union. It did come up on a visit that we had to the United States in March, where it came up in a small minority of discussions, two of 25 meetings. It was raised proactively and the reaction was overwhelmingly negative.

Baroness Hayter of Kentish Town: I think that one of your ex-colleagues will have some interesting discussions with you.

Miles Celic: Yes, I suspect we will.

Q144 **The Chair:** Thank you very much. In the few minutes remaining to us, perhaps I could just ask a topical question. Yesterday the Government issued their long-awaited defence review. There are plans for increased

levels of defence expenditure, and after the forthcoming NATO summit it seems almost certain that the bar will be set much higher than the Government have so far been prepared to acknowledge. In the defence review it did talk about the involvement of industry and about the financial services industry as well. There has been a lot of speculation and ideas floated about various financial wheezes and instruments to help with this process of increasing defence expenditure.

Clearly, this is a challenge that will be faced across all the European members of NATO and we have already seen, for example, the EU SAFE fund to try to improve defence capital investment. Do you think, in the context of this particular inquiry, that there is scope for UK financial services acting in concert with European counterparts to help address some of these challenges and issues? If you do see that, are there any particular obstacles that would have to be overcome first? Indeed, is this perhaps part of the impetus behind removing some of those obstacles, given the urgency of the situation?

Miles Celic: I was very proud to be one of the panellists on the strategic defence review looking at precisely this question. It is absolutely something that the industry is supportive of. We recognise that there is a clear democratically expressed will here in the UK and across the European Union for the need to increase spending and investment in defence and security. In fact, a few days ago we launched, with our counterparts in the defence industry, ADS, a paper setting out what more can be done by the financial services industry and, indeed, by the defence industry and government to improve the flow of finance into defence. There are a number of conversations ongoing with European counterparts. We run the Anglo-German Financial Services Dialogue, which met a few weeks ago. The German ambassador was part of the discussions, and a large part of that discussion was recognising that there is a common challenge across Europe to invest in our safety and that that is something that the industry across Europe ought to be able to step into.

We welcome the moves that have been made by the European Union in this regard. We welcome the SDR that was launched yesterday. A large part of this is about making sure that there is a better and clearer relationship between industry, government and regulators. A lot of this ultimately will come down to demand signals. From a financial services perspective, if we know that 3% or even 3.5% will be spent on defence, that is a clear demand signal that makes it a lot easier to justify investment into companies that will support that effort.

Caroline Dawson: In terms of obstacles, just because we have looked at this for a couple of clients, one of the things that people have been exploring is whether their sustainability commitments are consistent with investment in the defence industry. The FCA¹⁰ has made a very clear statement that it is possible; you just need to take a view on your sustainability commitments. If we look at the EU, there is no EU-wide

¹⁰ Financial Conduct Authority

mandate on this, but if you look at individual member states, some member states do have specific restrictions on the amount of capital or whether or not you can invest in specific sectors of the defence sector. That is just an obstacle that people are working out at the moment.

The Chair: One could, of course, observe that there is no sustainability at all without survivability.

Professor Sarah Hall: I support everything that has been said and Caroline's point around how this comes into contact with sustainability commitments.

The other potential obstacle that I would draw attention to is that, as I understand it, the defence sector in the UK has quite a strong presence of small and medium-sized enterprises. Historically, it has been harder for those sized firms to access finance in the UK. Going beyond the usual suspects and thinking about those SMEs will be quite important.

Miles Celic: We would be very happy to share the paper I mentioned with the committee if that would be helpful.

The Chair: It would be very helpful. Thank you very much. We have, as advertised, run well over our time, so I am very grateful to you for agreeing to stay for the 90 minutes. I think that we could probably have done another 90 minutes, but we might have worn you out. There is a wealth of food for thought there and we are very grateful to you for such expert and comprehensive contributions to our inquiry. Many thanks, and with that I draw the public evidence session to a close.