HOUSE OF LORDS

European Affairs Committee

Corrected oral evidence: UK-EU financial services

Monday 7 March 2022

2.55 pm

Watch the meeting

Members present: Earl of Kinnoull (The Chair); Baroness Couttie; Lord Faulkner of Worcester; Lord Foulkes of Cumnock; Lord Hannay of Chiswick; Lord Jay of Ewelme; Lord Lamont of Lerwick; Lord Liddle; Lord Purvis of Tweed; Baroness Scott of Needham Market; Viscount Trenchard; Lord Tugendhat; Lord Wood of Anfield.

Evidence Session No. 2 Heard in Public Questions 17 - 36

Witness

I: Sir Jon Cunliffe, Deputy Governor for Financial Stability, Bank of England.

Examination of witness

Sir Jon Cunliffe.

Q17 **The Chair:** Welcome, everyone, to this hybrid House of Lords European Affairs Committee. We are doing an inquiry at the moment on financial services and the future relationship between the UK and the EU. This is the second of what will be five evidence sessions. We are very pleased to welcome Sir Jon Cunliffe, who is deputy governor for financial stability at the Bank of England. I am very grateful to you, Sir Jon, for coming this afternoon, because you are, of course, even busier than usual with how events have turned out internationally at the moment.

This is a public oral evidence session, so a transcript will be taken, which we will send to you in due course. We would be grateful if you could advise us of any corrections that need to be made to it, as it will be the foundation of things we might say in our report, which we expect to bring out during the second quarter of this year. We are down for 90 minutes. I have encouraged my colleagues on the Committee to keep their questions crisp and short and not to make speeches, because we want to hear from you in that time.

The first question is really a simple, limbering-up question. It is to do with the mood at the end of the transition period. There was a great mood of optimism that the Trade and Co-operation Agreement would unleash good co-operation and good trade in financial services between the UK and the EU. Just over a year later, do you feel that that optimism has been well founded?

Sir Jon Cunliffe: First, I am not sure that I detected optimism or pessimism. At the end of the transition period, or when the agreement was concluded, people were waiting to see what would happen next. In terms of where we stand now, it is pretty clear. Commissioner McGuinness has made it clear that the signing of the Memorandum of Understanding, which itself involves no access for UK financial services but provides a framework for dialogue, is, along with a number of other elements of UK-EU engagement, being held up until the overall relationship, or what remains to be decided or agreed on the overall relationship, or put into practice, has been put into practice—most obviously, the Northern Ireland Protocol where negotiations are still continuing. They have been pretty clear on the EU side that we have a text—the document is finished—but it will be concluded, I imagine, when both sides are satisfied that the Withdrawal Agreement and the trade agreement are being put into practice.

The Chair: Thank you very much. We will come on to the MoU at a later stage in the question set. In the meantime, and after a very short at bat from me, I hand over to my colleague, Lord Liddle.

Q18 **Lord Liddle:** Apologies for my late arrival, Jon. I want to press you further on the Memorandum of Understanding. What have we lost as a result of it not being signed? That is the first point. How significant is it that this thing has not been signed or settled?

Sir Jon Cunliffe: Its practical significance in providing access for trade is relatively small. Access for trade in any financial service will be determined by the various equivalence regimes and other decisions that are taken outside that MoU. Financial services were deliberately left out of the Trade and Co-operation Agreement, so the arrangements for access will not be determined by that.

I think, though, that it carries a larger significance than just its practical significance. It is a framework for discussion about regulatory developments going forward. It is a framework for discussion of issues that might arise in the process of equivalence. If we ever get to the point of equivalence regimes—we have given equivalence to the EU, because we have the mirror image, in 16 or 17 areas—it would provide the structure for that.

Of course, we have plenty of interaction with our EU colleagues, and I am sure HMT does as well, but there is no structured forum for dialogue on regulatory co-operation. I think that matters. We have fora like that with the US on a range of economic and financial dialogues, as, of course, does the EU. It will not make any practical difference, but having a structure for that sort of interaction and dialogue is important.

Lord Liddle: Can I press you a bit further on that? Obviously, when we are deciding whether to diverge and do our own thing on financial regulation, one thing is what kind of reaction from the EU it might result in, and whether that would be negative and whether the costs would outweigh the benefits of taking that line of action. Does the absence of a formal consultation arrangement inhibit our ability to judge these questions?

Sir Jon Cunliffe: Not on specific issues. We still have plenty of contacts. It is quite possible. On things like the implementation of Basel 3.1, there have been discussions between the PRA and the Commission, but also the supervisory authorities, about how we are doing it and how they are doing it. I do not think it is that there is no channel of communication; there are a number of specific, informal links that we can use, but it is not within an overall structure.

To broaden the answer, it is not a question of doing our own thing; it is much more a question of doing what is right for the UK and the UK system. I imagine we may come on to this later. We would not start that consideration from the standpoint of what impact it will have on equivalence with the EU or alignment. We would start it very much from the right thing to do for UK financial stability, safety and soundness, and if there was a divergence we might discuss that. We might discuss it with the US and other key players as well.

Q19 **Lord Lamont of Lerwick:** You said that the absence of the MoU would have no practical significance. We talk a lot about the need for regulatory co-operation, but is regulatory co-operation, in your mind, a matter of exchanging information and exchanging views about the changing world in finance rather than making policy decisions, and that it has nothing to

do with alignment, divergence or equivalence?

Sir Jon Cunliffe: Maybe practical was the wrong word. I was talking about access, and specifically access for trade in financial services. That structured dialogue is not the place where it would be determined. The EU has made it clear that it prefers a system where both sides have autonomous—the word that it has used—decision-making processes. It will reach its view within its own processes rather than some joint decision-making processes on access.

Regulatory co-operation happens at a number of levels. We and the EU are both active participants in international fora, and the place where you would want regulatory co-operation to start globally is in international standards and the formation of international standards. That structure would give us a formal way of discussing with the EU how we see the development of standards in existing and new areas of financial services activity. It also gives us the ability to have conversations about things that are coming up and how we would deal with them.

If you read the MoU, it would also allow for some discussion of things that were coming up in the equivalence process, although making clear that equivalence itself would not be determined within that. It would make a difference. Concluding it would close a chapter in the relationship. That would be an important signal to the financial sector and to markets more generally that regulatory co-operation can happen more generally.

By regulatory co-operation, do I mean that we would both decide to do the same thing in exactly the same way? No, I do not think so. To my mind, regulatory co-operation is agreement on standards, agreement on the outcomes you want, and agreement on the things you are tackling, or at least explaining why you are dealing with things in a different way. I do not think that regulatory co-operation would go to co-drafting regulation, if that is the question.

The Chair: Thank you very much. We will come back to equivalence in some way later on.

Q20 **Lord Jay of Ewelme:** Following on from Norman Lamont's question, can you say a little bit about how regulatory co-operation happens now? You talked about how it might happen were there an MoU, and you talked earlier about co-operation with individual countries carrying on. Do you feel that the lack of some central interlocutor when you are dealing with individual countries is satisfactory?

Sir Jon Cunliffe: I draw a distinction between regulatory co-operation and supervisory co-operation; it is in the title. I can talk about how we co-operate on supervision, but regulation is about the making of the rules for now and for the future. Regulatory co-operation mostly happens through international standard-setting bodies that set higher-level standards that are then implemented by individual jurisdictions. That machinery exists with the Basel Committee through the Committee on Payments and Market Infrastructures, which I chair through IOSCO.

There are a number of global bodies that provide for that co-operation on regulation. It is more than just sharing what is happening; it is the determination of standards, which is quite powerful. With individual jurisdictions—maybe I could take the US as an example—there are structured dialogues, but there is also regular interaction between the Bank of England and the Fed on some of this. There is an international regulatory community, which has mechanisms for meeting and deciding. What changes is that that regulation was made when we were a member of the European Union, in a collective EU process of which we were a part. Clearly, we were very closely involved in that.

Now, of course, the two systems are distinct and autonomous, to use the EU word, so we would have to do it through dialogue and co-operation. Much of this is for the Treasury, because the interlocutor on the other side is the Commission, although there are some areas where the regulation has been onshored. What in the EU system is proposed by the Commission and agreed by the co-legislators, the Council, and the Parliament, in the UK system would be done by the Bank of England. We line up with the political authorities on the other side. We can certainly find ways to talk to them, but we lack an umbrella-structured dialogue to do so, and that makes a difference at the margin.

Lord Jay of Ewelme: Other things being equal, you would prefer to have an MoU and it would make things easier and better.

Sir Jon Cunliffe: That would be usual. If you came down from Mars and saw, in financial services terms, two large jurisdictions with very strong links between financial sectors on both sides, leaving the past aside, and the acquis, but looking to the future to issues like climate or crypto, you would probably assume that there was some structured dialogue between them.

Lord Jay of Ewelme: Thank you.

Q21 **Lord Hannay of Chiswick:** If I have understood it correctly, the United States has a structured dialogue with the European Union in this area and we do not. I think that is correct.

Sir Jon Cunliffe: We have a dialogue.

Lord Hannay of Chiswick: A structured dialogue.

Sir Jon Cunliffe: Yes.

Lord Hannay of Chiswick: But I thought you said we did not.

Sir Jon Cunliffe: No, I said we did not with the European Union. I am sorry; if I did say that, I misspoke.

Lord Hannay of Chiswick: Sorry. I am saying that the United States has a structured dialogue with the European Union, but we do not with the European Union.

Sir Jon Cunliffe: Not with the European Union. Correct.

Lord Hannay of Chiswick: Secondly, could you say a little bit about how our structured dialogue with the United States would work? I noticed that you said that it was not a sort of place where you would ever reach an agreement or anything. Presumably if the United States was contemplating something regulatory that we did not like, we would raise it quite robustly in the structured system that we have with the United States, but that is missing with the European Union. Similarly, they would do the same with us, and out of it could come a recognition that their regulation should be a bit different, and we would try to shape it. Is that what we are missing?

Sir Jon Cunliffe: If there were a regulatory proposal in the US that we thought was a problem, or vice versa, first of all, there are international fora for raising that to standard-setting bodies, as I said. Because the financial system structure is very different in different countries, particularly in the US, one would not comment on that unless you thought it might have spillover effects elsewhere. We would raise concerns and they would raise concerns through regulator-to-regulator channels.

The dialogue is just a formal way of bringing those conversations together, having them at a high level and creating links between the individuals, but it is not the only channel for raising something. The way I read the MoU with the European Union—the one that was drafted—is that if we had concerns about where they were going, or they had concerns about where we were going, that would be a high-level place that would enable them to raise it. We would have to find another way to do that, absent that structure.

Lord Hannay of Chiswick: Thank you.

Q22 **Lord Lamont of Lerwick:** The UK is undertaking a number of reviews into the regulatory framework underpinning the financial services. Which areas do you see as most likely to benefit from reform, and what kind of regulatory approach would be likely to maximise any advantages? I suppose it is a question of balancing light touch versus market access.

Sir Jon Cunliffe: As you say, there are a number of initiatives going on. Probably the most important to the UK for the future and how we regulate financial services is the future regulatory framework. There have been two consultation documents from the Treasury, and I think the Treasury is going to legislate. That is not about a specific sector; it is about how regulation is done in the UK. Perhaps I could elaborate on that for a moment.

In the EU, much of the regulation is done in primary law. It is done in a process between the Council, the Commission and the Parliament. The primary law is extremely detailed. The European Parliament gets very involved in the detail of a primary law, and then it is quite inflexible once it is done. It is quite hard to change; changing primary law is not easy anywhere. It has to cater for, now, 27 different jurisdictions, so it is quite

extensive. I think the EU is the only jurisdiction in the world that does it that way. Maybe there are one or two others.

The US, Switzerland and other jurisdictions with big financial sectors tend to set out the principles of regulation in primary law. They might then define it one level down in secondary legislation—statutory instruments in the UK's case—but then it is the regulators' rulebooks that set the detail. The reason for doing that is that regulators' rulebooks are more flexible. They can move more quickly, and they can be tailored much more easily than the primary legislative process.

The reason the EU does that—it is not an accident—is because, if you are trying to ensure level application by 27 jurisdictions with 27 different sets of regulatory authorities, they feel the need to nail the detail down in primary legislation, although some EU commentators and regulators have made the point that if they had a European regulator or supervisor, they could adopt a more principles-based approach. The opportunity for the UK not being in the EU is precisely to adopt that sort of principles-based approach, and then you have different levels of governance getting into the detail. That is what the Treasury proposals provide for.

In a way, it takes us back to the position we had before the Single Market in financial services. I single that out not just because it is of interest to me as part of our regulatory authority, but because, if you think ahead, we can see immediate issues with insurance and Solvency II and the Treasury's securitisation review, the Wholesale Markets Review. Those are today's issues. What is of greater benefit is having a system for the future that is basically faster moving and more flexible than we were able to have within the EU. It is not a comment on net pros and cons, but clearly the inflexibility of the EU system is a product of what the EU is trying to do. Outside the EU, we have the ability to have a more flexible system. I can talk about the regulatory approach as well.

Lord Lamont of Lerwick: What you said is very interesting and very significant, but I asked what areas would benefit. Can you identify any sectors as well? I appreciate why you said what you did.

Sir Jon Cunliffe: I guess it is the whole area. The Solvency II review is not concluded yet. The Economic Secretary made a speech on it a few weeks ago. It should produce benefits.

In my view, benefits run both ways. There are some areas where we might want to change regulation that we think is having an impact that we do not want it to have. The insurance industry has been pretty active in putting its case on that. There are also some areas where the EU legislation may not have gone far enough, or so-called EU specificities were written in, which you might want to adjust in the other direction; Solvency II is an example of both those things at play. The Wholesale Markets Review, which the Treasury is carrying out, will also be of benefit, because at the moment access to the UK market is a bit like a series of archaeological layers. You have the overseas persons exemption, which came in in the mid-1980s with the big bang.

Q23 **Lord Lamont of Lerwick:** When you talk about wholesale markets and digitalisation, the Bank is very much concentrating on the retail level, as I understand it. Some people, not that I pretend to know a lot about this, think that a wholesale digital market, a central bank digital currency, is much more important from the point of view of the financial architecture of the financial system, and that central banks in other countries, including in the EU, might get a very strong position in payments and other infrastructure by developing a digital central bank currency, which we are concentrating on less.

Sir Jon Cunliffe: We tried unsuccessfully to persuade another Committee of this House that we were not ignoring wholesale central bank digital currency. The point is that a wholesale central bank currency is a technological step rather than a policy step. At the moment, we have digital central bank money at a wholesale level. The banks, as you know, have accounts with the Bank of England, and all that is done digitally, so there is a wholesale central bank currency in operation at the moment.

The question is whether there could be an application of DLT—distributed ledger technology—in the blockchain, either private or public, or some arrangements that would allow a group of members of the Bank of England systems, such as the bigger banks, to have a digital coin that they could exchange among themselves and only clear the net with the Bank of England. There are a number of commercial proposals, a couple of which we have been working with very closely.

That work is going on. It does not attract the attention that the retail central bank digital currency attracts because it already exists, and the banks are not concerned about the flight of deposits or what would happen in a bank run. It does not really have the same financial and monetary stability questions. It would be a far-reaching technical change. If you look at the policy the Bank announced a couple of years ago on so-called omnibus accounts, which would enable a group of wholesale banks to have one account that they operated themselves using some form of digital coin, we are certainly doing work in that direction. I hope we have done a better job of it this time.

Q24 **Lord Wood of Anfield:** Hello, Jon. I would like to go back to the question of alignment and dealignment between EU and UK financial services, laws and regulations. First, do you think there is a case for having as an explicit policy goal continued alignment with the EU's regulatory framework? Alongside that, from the EU's point of view, do you think the EU has an interest, or a dominant interest, in maintaining alignment with us, or are those two things up for grabs?

Sir Jon Cunliffe: Part of the answer depends on what you mean by alignment. We have always been clear that alignment of regulatory outcomes is something that we are in favour of. We try to achieve as much of that, where they exist, through international standards and the application of international standards, but alignment of regulatory outcomes does not mean that we share the same texts—text alignment—

or that in every particular we do the same thing. You try to take an overall view.

When we do, as we are doing now, equivalence assessments of other jurisdictions—non-European jurisdictions, because we have had to bring those onshore as well—we tend to look at it in the round and say, "This system may not be our system, but are we satisfied that the outcomes are robust in relation to the risks we take on that?" That is something that the UK, as home to a large international financial centre, should pursue not just because it enables our financial sector to participate in other financial jurisdictions, but equally, if not more important, because we are open to a wide range of jurisdictions from all around the world, and it is important for us to know that if we are importing risk from abroad, the regulatory outcomes and supervisory outcomes in those jurisdictions are robust. It is something we should pursue.

Should we make it an objective of our regulatory policy? I come back to the answer I gave, perhaps unsolicited, to Lord Liddle at the outset. The starting point for us is what makes sense given the structure of the UK financial sector and its development. In most cases, you would expect that to be determined under international standards or discussion of international standards.

A very good example now is with so-called crypto where the international standards are being developed as we speak, and we should make that an objective. Would I make it an objective to line up our regulation with another jurisdiction, be it the US, Japan or the EU? No. We would find it very difficult to say that we could meet our objective for financial stability, safety and soundness if we had another objective to line up with the way another jurisdiction had decided to do something.

Lord Wood of Anfield: What about from the EU's point of view of alignment?

Sir Jon Cunliffe: It is committed to international standards, as we are, but I do not get any sense that the EU regulatory process starts with the objective of alignment with other jurisdictions, for the same reasons. It is hard enough with 27 jurisdictions without trying to align with others. That is why the international process is so valuable, and not just because we are not in the EU any more. It was extremely valuable when we were in the EU.

Q25 **Lord Wood of Anfield:** You answered this a bit earlier in some ways, but if gradual dealignment occurs in a particular area, what kinds of mechanisms do you foresee being in place to address it or to confront it? Do we know anything from the EU's relationship with Switzerland about the way the EU approaches this issue?

Sir Jon Cunliffe: The first point is that dealignment will happen. It will happen with the natural evolution of regulation, in part because we will be focusing primarily on our jurisdiction and they will be focusing on their jurisdictions. Financial regulation is also political, and societal to some

extent, so I assume that over time there will be dealignment, or that we start from the same point but we drift apart.

What would matter from our perspective? If I were to look at that in the light of EU clearing houses selling services in the UK, which we have at the moment, I would look to see the regulatory outcomes. You can live with non-alignment on text or non-alignment on specificity if you think that the overall regulatory outcomes are sufficient, particularly if they are under the umbrella of international standards.

To put it another way, we manage to have more financial services trade with the US than with the EU—marginally more—without any regulatory alignment at all, and their system is very different from our system. We can get satisfaction assurance on the regulatory outcomes that they are pursuing, in part because of international standards. It will happen over time. To repeat what I said before, as we approach new areas of financial services, it is important that the major jurisdictions try to get on the same page for standards; what you are trying to achieve, what risks you are dealing with and what the acceptable ways to deal with that risk are. That is where the Basel and other frameworks are very important.

Q26 **Lord Tugendhat:** Sir Jon, could I take up a point raised by Lord Wood a moment ago? On divergence and alignment, what is your impression of what the practitioners themselves would like to see? I realise there will be great diversity of view, but it would be very helpful if you could give us a view as to what American practitioners, Japanese practitioners, and, of course, EU practitioners would like to see. It is a long time since I have been involved in the financial sector, but my impression is that quite a number of practitioners might prefer the opportunities for regulatory arbitrage rather than alignment and equivalence.

Sir Jon Cunliffe: I do not think there is one net answer to that, and not just because of the diversity. At times, divergence and, as you say, the opportunities for arbitrage are preferred. At other times, financial firms make well-justified claims that, "You all do the same thing, or a similar thing in different ways, so why don't you line it up?" To give a good example, five or six years ago we started doing cyber-penetration testing in the financial sector, from the Financial Stability Committee. It was picked up in Europe and in the States. A number of companies came to us and said, "You are all essentially doing a similar thing. We have operations in all these countries. Can't you just do one, or at least line up your timetable?"

We hear it now on Basel 3.1, where banks say, "Could you all implement at the same speed, because it's really expensive for us to have to manage implementation schedules that are different in different countries?" There are arguments from the practitioners' point of view for convergence and consistency, but they tend to prefer the financial regulation that they like best in a particular jurisdiction. I see both things happening.

One thing that we are a little concerned about, which is not new, in my experience, because it happened a lot between the EU and the US when we were a member of the EU, is practitioners coming in and saying, "Over there, they allow this. Why don't you allow it here?" It is never, "This is the whole regulatory framework. We would prefer that whole regulatory framework". It is, "We like this particular thing. Why can't we do this specific thing over here?" When I talk to people in the States, they say, "That's very funny, because our banks come in and say, 'Well, they do something in the UK that we'd like to do'".

You saw a little bit of that before the financial crisis in the SEC regulation of the wholesale investment banks. We are seeing a bit more of it now with the EU because there are some divergences, and I imagine they will see it as well. That argument of "We have to do what the other side does" will grow.

Q27 **Lord Purvis of Tweed:** Good afternoon, Sir Jon. Widening it beyond the EU for one moment, the Government's approach is that, in new trade agreements, they want market access offers for financial services for other countries. I understand that they have tabled proposals at the WTO, with Canada, Australia and Switzerland, for opening up market access for financial services. Could you outline some examples of where that could be for market access approaches if the UK is going to be opening up wider on an international basis as far as financial services trade is concerned?

Sir Jon Cunliffe: Most international trade agreements do not have very developed provisions for access in financial services. One reason is that it is a very highly regulated industry in most jurisdictions, for obvious reasons, and there is the so-called prudential carve-out, which gives you the ability, even where there are commitments, for prudential reasons to override those commitments. Financial services have not become very developed in trade agreements. Where they deal with financial services activities it has tended to be in the less regulated areas, because it does not run into these issues.

To go back to the question of regulatory outcomes, there is perhaps more scope in mutual recognition agreements between jurisdictions to look at the different regulated systems, the arrangements for co-operation between regulators and supervisors, and the outcomes that are being achieved. Under that umbrella, backed up by a trade agreement, you can then have more access across borders. The Treasury is at the moment, to give you an example, negotiating quite a developed mutual recognition agreement with the Swiss authorities, which we are involved in and the Swiss regulators are involved in.

I imagine that for trade in financial services there may be some elements in some trade agreements, and some of it may go to localisation policies, such as the requirement that you have to have a local partner or a foreign company can own only a certain percentage of a financial firm. Those are not really regulatory issues. When you come to how you ensure that both sides feel confident, in a regulatory sense, about the

risks to and fro, you are looking more at mutual recognition agreements. The Swiss one was an obvious one to start with, because we and the Swiss are very close. I think the Treasury will also try to roll them out to other sectors.

Q28 **Lord Faulkner of Worcester:** Jon, can I ask you about the Government's efforts to secure free trade agreements with third countries? They obviously attach a great deal of importance to those in the post-Brexit world. Do you think they will succeed in mitigating or supplanting any loss in trade in financial services that would have existed otherwise with EU Member States?

Sir Jon Cunliffe: From memory, trade with EU participants is just less than a third. I think I said earlier that the US is larger. It is not as if all trade with the EU will be lost because we are no longer members of the European Union. What the impact will be will play out. It is not finished yet. There is still the transfer of business potentially going on. How much of the activity that took place under passporting will eventually leave the UK is difficult to know, to be honest. It is not really equivalence; passporting was a much broader set of permissions that basically allowed any firm in the UK to operate in the EU without restriction.

Lord Faulkner of Worcester: When might we know? When might we get a better indication?

Sir Jon Cunliffe: It will be a process of years, to be clear. Some of it will depend on decisions in the EU. The most obvious one is central counterparty clearing where there is now a three-year equivalence period, but the EU has said, at any rate, that it wants to move some of that business back to the EU. We can talk about the likelihood of that, but you will only know in a number of years what has happened. The ECB is carrying out a review of booking models and trading desks, which, again, may lead to some more business. They may require more business, in relation to EU firms, to move back. I think it will be a number of years.

To the extent that business moves, it may well change the economics for the firms providing it, and that will lead over time to investment decisions and location decisions, not necessarily to move things from the UK to the EU; there are other jurisdictions where firms might invest. It will take a number of years before you see the impact. On the other side, how much of that might be replaced by trade deals or mutual recognition arrangements with other countries, to go back to the point I was making earlier, is not clear to us at the moment. That policy is still in the relatively early stages. The biggest area might be the US. Financial sector activity between the US and the UK is pretty large at the moment. I do not think I could give you an assessment.

Lord Faulkner of Worcester: I do not think you will be able to answer my other question. What are the benefits and disadvantages of this approach?

Sir Jon Cunliffe: There are very large advantages in a global financial sector for a number of reasons. It enables savers in some parts of the world to reach investors in other parts. It allows you to diversify risk, it allows better efficiency of matching, and it allows competition. I would start from the premise that an integrated global financial sector is a good thing, but—it is a big but—there are risks, and it needs appropriate governance. Cross-border governance is very difficult. We saw in 2008-09 just how quickly shocks can move if it is not properly governed.

Maybe this is the answer I did not give Lord Lamont on a regulatory approach. Our approach should be one of starting from a principle of openness but requiring assurance that the risks we import from others are properly managed. The UK has always taken that view on financial services. You start from an open position, and then you say, "Can we manage the risks of this?" If you cannot, clearly your position is more closed.

That is why regulatory outcomes, international standards and all those things are important: because they are the governance framework that allows you to be open. We should, when thinking about trade deals or mutual recognition or our engagement with the rest of the world, be aiming for an integrated sector, subject to the appropriate governance being in place.

Q29 **Baroness Scott of Needham Market:** Good afternoon. On reflection, how would you describe the strengths, and what would you say are the limitations, of the Government's current approach to post-Brexit regulation and diversion on financial services?

Sir Jon Cunliffe: In terms of their domestic approach? Without going into a long explanation of the future regulatory framework, those proposals need to go through Parliament, and there will be really important questions of accountability to be decided and determined. They are an important step in doing that. The reviews that we have at the moment have picked out some important issues, but we have not actually concluded the proposals. I cannot tell you what the net impact of Solvency II reform will be, because we have not yet got to the end of those processes.

The aim to have a more innovative and nimble approach to regulation is a good aim. It also has to be balanced, and I think this is in the Government's statements, by ensuring that we have sound and robust regulation and that the independence of the regulators is respected. The Treasury has been clear in its statements that that is where it is. From where we are starting, I think it is moving in the right direction, but it is pretty early, and we have yet to see the outcome of all these processes.

Baroness Scott of Needham Market: That is fine, thank you.

Q30 **Lord Hannay of Chiswick:** Could we look a bit at the issue of sectoral equivalences, Jon? Perhaps it would be best if we could start by being quite sure that we are all talking about the same thing. I am talking

about what the EU grants. I know that we grant a very wide number of equivalences to the EU, but that is not the main point of the questioning.

I have a list that says that the EU grants equivalences in the number of 21 to the US, 15 to Singapore, 13 to Switzerland and one to the UK. I think the Chinese are somewhere in that list, but I am not quite sure what role they play. I will carry on a bit further, but could you confirm when you answer that those figures are right, and that we are talking about the same thing and this Committee is looking at the same thing?

Clearly, there is a huge imbalance in what the EU does in granting equivalences for a lot of other financial centres and what it does for us. Does this imbalance, in your view, create any kind of competitive disadvantage for London? If the answer is that it does, will it, therefore, continue as long as the imbalance between us and other financial centres in the grant of equivalences from the EU continues?

Secondly, why do you think those other countries appear to value equivalences so much? Presumably, they would not have gone to a lot of effort to get the EU to grant them if they did not. They are not countries that spring immediately to mind as being careless about their sovereignty, or their ability to regulate their own business, so why do they value them? It would help us to understand the answers to those questions first, and it would be better to answer those questions first, before going on to the question as to whether equivalences should be part of our own approach in the future.

Sir Jon Cunliffe: First, on the numbers, we would have to confirm them from the EU website, which I imagine is where they came from, because we do not keep or have our own information on the EU equivalences. I imagine they are right, but I could not confirm the actual numbers.

The second point, and perhaps the point you are driving at, is that the UK-EU equivalence process has been paused. The EU has been clear, as I think Commissioner McGuinness said, that, first, we have to see the overall implementation of the Withdrawal Agreement and the Trade and Co-operation Agreement, and then we will return to the question of equivalences. We were in the process, and we had actually sent back voluminous returns to the EU questionnaires on equivalence, and then all the equivalence processes were pretty much stopped. The EU has been clear that those will resume when it concludes that the TCA and the Withdrawal Agreement have been implemented. That is one of the reasons why the process stopped.

The EU's further statement, which I do not think it has made in respect of any other jurisdiction, is that for the UK it would look at further equivalence not through the lens of what we have at the moment, because what we have at the moment is pretty much a mirror image of what exists in the EU, but more in the light of our future plans. As I say, it does not apply that to any other jurisdiction and it would be quite difficult to apply to the EU itself. That is why we are where we are.

As to how much difference it makes, and whether it puts us at a competitive disadvantage to others that have these equivalence decisions, and have been applying for them over a number of years—it is not recent—there are a number of points. First, a large number, I think probably the majority, of equivalence regimes do not go to the question of access and trade in financial services. A large number of them go instead to things such as capital treatment. You might have a certain sort of asset that can be determined equivalent for capital treatment. That is most obviously the case for sovereign bonds.

In the EU, all sovereign bonds are treated as equivalent in terms of their capital charge, regardless of the differences between the Member States that issue them. There is a large number of those in banking and insurance about how, when you are calculating capital solvency requirements, you treat particular assets, and whether there is equivalence in that process. We have granted some of those to the EU and they are valuable to the extent that your financial sector invests in those assets. You mentioned different jurisdictions that have equivalence, and they may or may not find that of lesser or greater value; but it is not about trade, and it is not about access.

If I had to look at trade and access, I would say that the two regimes that matter most, or would matter most from a UK perspective, are Article 25 of EMIR, which is the whole clearing house debate, and Article 47 of MiFID, which is what would allow more cross-border provision of wholesale financial services on the investment banking side. The EU has said on MiFID that it is not giving any equivalence decisions because it is reviewing MiFID. I would have to check, but I do not think it has given Article 47 equivalence to anybody from that point of view. On the clearing house side, it is different, because it has given equivalence to the US in respect of CME, and some other clearing houses, and to a number of other jurisdictions.

How much of a competitive disadvantage in relation to others would it put the UK at? I would have to think about it, but I am not sure it is a first-order issue, to be honest. The competition in financial services that we get from some of the jurisdictions you mentioned is relatively limited. I could not see wholesale activities moving, because no other jurisdiction had particular grievances.

There are, though, one or two exceptions to that. I will give you an example of one, which is quite a curious exception: the derivatives trading obligation. This is the requirement to trade exchange-listed derivatives only on recognised exchanges in the EU or with exchanges that are recognised outside. The EU determined not to give that equivalence to the UK, but it has given it to the US. The UK determined, because we have the same system, that we would not give equivalence to the EU. That resulted in a number of EU financial institutions being caught, because they had operations through the UK where much of this business is done. They could not do it on UK exchanges because those were not recognised, and they could not do it on EU exchanges because

we did not recognise them either, so the business, by and large, went to the US, which is kind of odd.

In those areas you might see businesses diverted because of these kinds of equivalence decisions. I would have to look at those figures of 21 for the US and 15 for the Singapore in some detail to see how many were about access and how many were about other things, and then how likely we were to face competition in those areas. Perhaps it is more material than I think. It might be important, but I would not have thought that it was of first-order importance.

Lord Hannay of Chiswick: Thank you. Would you be able to write to us and set out your in-depth thinking on this, because I think it is quite an important point?

Sir Jon Cunliffe: Gladly.

Lord Hannay of Chiswick: You said at one point, I think, that the imbalance could cause disadvantage to us, but surely it either is or is not, because it is happening. There is an imbalance now, and one should be able to judge whether that is damaging. Is the distinction you make between equivalences that relate directly to access and other equivalences a very real one? If it creates a disadvantage, whether it is about access or not, it is still important, is it not?

Sir Jon Cunliffe: On the second point, it depends how important it is, and whether it is about the capitalisation, or whether it is about, for example, insurance companies that are not internationally active and not trading and not competing. If you think about the equivalence for solvency regulation, if there is no trade in those areas, my guess is not so much.

On the question of whether it is important for our companies that they do not have this capital treatment, it might be important to them, not for competition reasons but because they would want the capital treatment. If the sovereign bond treatment was more attractive in the EU than in the UK, for example, the majority of that would be for us to give. As I say, a lot of the equivalences we have given have been around those capital treatment issues. It would depend on the business, but I cannot immediately think of an example where a non-access equivalence might lead to a very large competitive disadvantage.

On the question of the access ones, I think it is more real. US clearing houses have an equivalence that UK clearing houses do not have. We have not seen any big movement to the US, because we could go to the United States rather than the EU. There would be other reasons why businesses organise their activities in the way they do and equivalence might only be a relatively small part of that. It may change and move the needle on the dial to some extent, but not enough to make you change the way you are going.

On your point that it is happening now, I think many financial services firms are probably waiting to see what happens. We are not through this process yet. It will be a number of years before we are, and that is really the point I made before about loss of business. You will not know for a number of years until they look at it. They look at the underlying economics and say, "We'll move that business somewhere", or "We won't expand it here. We'll expand it somewhere else". One reason you may not be seeing the effects is because people are waiting to see how it develops.

Lord Hannay of Chiswick: It will be a bit late then, will it not?

Sir Jon Cunliffe: For what?

Lord Hannay of Chiswick: When you find out that you have lost it.

Sir Jon Cunliffe: To be honest, I would not look at an approach to equivalence as if it is some determining factor that very clearly rebalances the scales in one way or another in most of these areas. Firms take a very large number of things into consideration when deciding when and where they put business. Some of the equivalence decisions may make a big difference. I think MiFID 47 and EMIR 25 are some of those. Many of the others will be one thing in a range of businesses.

If I had to think about what might make the difference, it would be more the booking model review the ECB is doing and other things that might change the economics. Equivalence perhaps gets too much attention as a key determinant of where business will move in the future. Of course, lots of other things will come into the equation the further and further we move from Brexit.

Lord Hannay of Chiswick: Thank you.

Q31 **Lord Tugendhat:** Sir Jon, I think you have gone a fair way towards answering the question I was going to ask you. In the light of what you have just been saying to Lord Hannay, I wonder whether you feel that equivalence is a strategy worth pursuing, or whether the same applied to equivalence—to come back to the point you made when you were answering Lord Liddle, when I think you said that there would not be much progress on the TCA until the overall relationship between Britain and the EU had improved, which might be one beneficial side-effect of the present crisis.

Sir Jon Cunliffe: I guess it is impossible to know the answer to that. We know what the condition precedent on the EU side is, or what it has said the condition precedent is, for the MoU and going to the next stage. We know that there is a body of opinion in the EU that is concerned about strategic autonomy, if I can call it that, and wants to move services to the EU. That is not a question of financial stability. It is a question of not wanting to be dependent on another provider outside its jurisdiction. We also know that the Commissioner keeps mentioning the word "trust" and what the UK's future arrangements might be. It is impossible to know how in a year or two that relationship will change, and whether we will

have a relationship in which both sides trust each other—I am just going on the public statements—and say that they trust each other.

There are many voices on the EU side that think the answer lies in greater integration with financial services, provided that the protections are right. I do not know which way the relationship will develop. It is very difficult to say. I do not think I would read what I see now as necessarily the end point. We are in a process as we move away from Brexit, and, as you observed, events that are happening might have put Brexit into some perspective as regards arguing about equivalence and the like from the European point of view. It is possible that Europe will pursue a course of strategic autonomy where it will not want to depend on other jurisdictions for its financial services and it will make greater efforts. That will not be a question of alignment or regulation; it will be a policy intent to have the activity onshore. As I talk to the people I used to deal with on a daily basis, there are other voices that say no, that is not very sensible for the provision of financial services in the EU.

I do not know how the balance of those two things will come out. I think they are being coloured now by the post-Brexit tensions, if I can put it that way, and it will depend a little bit on how those are resolved and which voices in the EU are in the ascendency. The EU political system, like any political system, is a mixture of very different opinions, and it is hard to forecast how it will resolve itself.

Lord Tugendhat: There is one point of detail that perhaps I should know the answer to, but I do not. In the granting of equivalence, by whom and how is the decision made?

Sir Jon Cunliffe: On the EU side, equivalence is granted by the Commission, and it has a lot of flexibility in its equivalence decisions. The equivalence regimes are different in each piece of legislation, but generally the recognition of individual firms is done by the supervisors, the independent regulatory authorities—ESMA for clearing houses, for example—but the equivalence decision is done by the Commission. On our side, the equivalence decision is done by the Treasury, and we are responsible for the recognition of firms within that.

As I said before, the process is entirely autonomous on both sides. The Commission sends you a very long questionnaire and you send back a return on equivalence. The questionnaire asks what laws and whether you have legislation. A decision is taken on the basis of answers to questionnaires and requests for further information.

Lord Tugendhat: Does the European Parliament—

The Chair: We have to suspend for five minutes. If everyone could handle their vote in five minutes, we will resume in five minutes' time with Christopher's next question.

The Committee suspended for a Division in the House.

The Chair: Welcome back. We have just had our vote, so perhaps I

could ask Lord Tugendhat to continue.

Lord Tugendhat: I have a very brief follow-up. You explained how the Commission works, but does the European Parliament get any say in it? If the Commission makes a decision, could the relevant Parliament committee haul the Commissioner up and ask why it was done, or anything of that sort?

Sir Jon Cunliffe: I would have to check, because I think there may be differences between the different equivalence decisions. There is comitology. Now I am trying desperately to remember my past. I think that some require the Council but not the Parliament. It has to go to a sub-committee of the Council, but it does not have to go to the Parliament, or the Parliament has to be consulted but does not have veto rights. I may be wrong and there may be some where the Parliament is involved. Perhaps we can look at it and come back to you.

The Chair: That would be very kind. I have a couple of points of detail. You mentioned earlier that we had granted equivalence in a number of areas to EU institutions, and in an asymmetric way those have not been granted back. Are there any other countries or entities in the world where we have an asymmetric relationship like that?

Sir Jon Cunliffe: Equivalence is a relatively new thing for us. We have only had the equivalence framework since Brexit. I would have to check. Some of our regimes are evolving. On the clearing side, and on the banking side, we had temporary permission regimes to allow access. I am thinking now of access, not the equivalence for capital standards. We have had temporary permission regimes that allowed European firms to operate. I do not think we have a policy of reciprocity that we require—perhaps that gets to the point—other jurisdictions to give us—

The Chair: It gets to part of the point. I wondered whether it really was very different, and whether there are not quite a lot of other asymmetric relationships.

Sir Jon Cunliffe: There certainly are other asymmetric relationships. Perhaps I can give an example for the future, because I would have to think about whether we have asymmetrical relationships elsewhere. We are proposing that, once we are given equivalence, we will have to tier incoming central counterparties—CCPs. The tiering is part of the EU EMIR legislation. If you are tier 1, it is mutual recognition. If you are tier 2, it is dual registration, so you have to be registered with the regulatory authorities in both jurisdictions, and in principle you are subject to the regulation and supervision in both. Tier 3 is what the EU calls location policy; you can operate the service only if you move the clearing house to the other jurisdiction. That is what the recent decisions have been about.

The US has required dual registration of London Clearing House for many years. We have not required dual registration of the CME for the same thing. That was outside Brexit. When we were in the EU, the EU did not

require dual registration of the CME. Asymmetric relationships exist in different parts.

One thing I should have said that I did not—it is a bit unfair to equivalence and the question of why we have not been good in equivalence—is that there is an element of proportionality. If a jurisdiction you do very little business with has a very small footprint in the UK, for example, we would not be as concerned about the regulatory regime, the quality of the supervisors and the supervisory co-operation as we would with a jurisdiction that had a very large chunk of business in the UK and whose failure might cause problems for the UK. The EU has made the point that in looking at the UK, because it has an awful lot of business here, it will apply more stringent tests than looking at a jurisdiction that would not have much impact. One can overdo that. It may have been used in part as a reason to treat the UK differently, but there is some logic in saying that if a jurisdiction poses a bigger risk to us, we will be more stringent in our analysis of equivalence and any conditions we apply.

Q32 **Viscount Trenchard:** Sir Jon, where does the Bank see the key future opportunities in the post-Brexit world, and how does it see its role in supporting those opportunities in the different subsectors of financial services, perhaps the four main ones—commercial banking, investment banking, asset management and insurance—and the two new ones, green finance and fintech?

Sir Jon Cunliffe: On the first point about the existing regulatory regimes, once the future regulation framework is in place I think we will be taking the acquis and turning it into regulators' rules, basically. That is quite a challenging task, because it is very large, but as we do that we will be able to review what is required under the acquis, and I think there will be the opportunity in many cases to streamline it and make it proportionate. It will be a process as we work through it, but there should be opportunity to tailor the regulation for the UK. I do not say that as a criticism of the EU legislation, but it was designed to meet 28 jurisdictions, and many of the things it is designed to do we do not have, and some of the things we have it is not designed to do, if I can put it that way. There should be opportunities as we go through that process.

One example might be that the PRA has announced and put out a discussion paper—not a government review but a PRA review—on strong and simple regulation for smaller firms. At the moment, the acquis applies pretty much consistently, say, in banking, to banks of all sizes. Most jurisdictions apply the Basel standards, which are the heart of EU banking legislation. Most jurisdictions apply them to systemically large institutions, important ones, and to internationally active ones, because it goes to cross-border competition.

We have a tail of very small building societies and banks for which the full application of Basel is pretty onerous. In the US they do not apply the international standards to the long tail of non-internationally active banks they have. The PRA's proposals for strong and simple would be that for

smaller institutions, for institutions that are not active internationally, we do not need to apply the full acquis; we just need to apply what is proportionate to the risk they pose and the activity they do. I think that will become a huge benefit in that area, including, at some stage, for challenger banks. We have an example of having done that already. On the other areas you mention, I can go back to Solvency II and the rest, but I think that, as you go through, the tailoring process of saying, "Okay, if we need to align regulatory outcomes, we need to be proportionate and bear in mind what sort of institution is internationally active or not", will be of growing importance.

It is in the new areas where there might be even more opportunities. I am highly involved with crypto and payments and central bank digital currency, and the application of some of the new technologies in finance. Creating a regulatory framework that supports innovation and guards against risk involves a number of careful balances, but we also need speed, for both reasons; innovation is not sustainable if in the end it is not safe. The UK has a lot of opportunity in that area, and ditto in climate, to use the flexibility we have to move quickly and to try to put the cursor in the right place on the balance between different objectives.

Viscount Trenchard: Thank you. Could you comment on different financial centres or different geographic regions within the UK? The question refers to different financial centres in the UK, but it is all a bit amorphous. Are there particular opportunities that are greater, for example, in Edinburgh and Glasgow or in certain financial sectors? Is there a geographic angle across the financial services industry?

Sir Jon Cunliffe: If we think about the financial service industry as domestic and international together, about half of it takes place in London and the south-east. There are other big centres. Edinburgh is big for insurance, and for some of the ancillary services such as legal and accounting Birmingham is a big centre. I do not see, in the way we would structure regulation or revisit the acquis as we bring it into the rulebooks, that we would do that on a regional basis. We may well find, particularly if we can have a better tailored regulatory system for smaller institutions to allow them to grow, that a lot of their activity is outside London. Ditto on things like some of the changes in technology; they do not require being inside a wholesale financial market in the way other services do.

If you are asking whether, when we approach regulation, we could tailor it to particular regions, I have not thought about that. We have a general set of objectives, both on the PRA and on the Financial Policy Committee, to support the Government's general economic objectives, and to support competition. There will be a new aspect of having regard to competitiveness of the economy, or economic growth, including through competitiveness. There are opportunities to take that into account, but I cannot think of an immediate example. If we can improve insurance regulation it will help Edinburgh and Glasgow, but this would be about improving insurance, not about directing regulation at particular regions.

Q33 **Lord Lamont of Lerwick:** On fintech, which may not be the direct

responsibility of the Bank but is very important, the Hill review sought to simplify and make it possible for more agile, less burdensome rules for listing. I know it is not your direct responsibility, but do you think that was going in the right direction? The Stock Exchange has symbolic importance to a financial centre, and there is a lot of concern that the Stock Exchange is looking very out of date and that the FTSE index is quite inappropriate for a leading financial centre. I may have overstated the latter point, but there is a lot of criticism and anxiety about it.

Sir Jon Cunliffe: I am aware of some of the discussions that are had on share ownership structures and how that might have affected listings. I have enormous respect for Lord Hill, but I have not engaged enough in the review and what is happening to give a view on whether the proposals are the right ones. I think you will have to ask the FCA.

The Chair: The good news is that Lord Hill will come to see us later on in our inquiry, so we will be able to put that to him. We come to our ever-patient Baroness Couttie. I am sorry, you seem to be at the end again and I think the selectors need to be shot. Baroness Couttie, over to you.

Q34 **Baroness Couttie:** Much of what I was going to ask has been covered in your answers to several questions, Sir Jon. Is there anything more you want to add on what the bank sees as the best long-term strategy for the shape of UK-EU financial services trade?

Sir Jon Cunliffe: We need to be constructive and prepared to engage with our European counterparts. I should have said that on the supervisory side we have 35 or 36 memoranda of understanding, which are designed so that the supervisors can work together. We need to build trust with them. Trust is a two-way process. We need to be open with them about the way we supervise and regulate activities in which they have an interest, because those activities are important to their jurisdiction. On the EU-UK approach, we need to be constructive, open and prepared to share information. That is what we expect of them, in the same way.

It would be very beneficial. The structure of our financial services institutions is different in every jurisdiction, but we have a lot in common with many of the EU jurisdictions. The extent to which we can work together in international fora will also be very important. If we ever get back to questions of equivalence, which are, as I say, a bit frozen at the moment—I imagine we will get back to them at some stage—we should approach them in the spirit of equivalence of outcomes and be prepared to discuss them and to talk with the EU about them, but I do not think the approach should be one of prioritising regulatory alignment.

Baroness Couttie: You talked about trust. In certain other areas of the TCA and the Withdrawal Agreement, it seems to have been somewhat undermined since we left the EU. Do you think in financial services that trust is there, and that we can build on it, or do you think we have a long haul to get back to perhaps where we were?

Sir Jon Cunliffe: It depends on which players on the other side you talk to, because there are many people involved in financial services. There is absolutely no reason I can think of why the EU authorities should not trust either the quality of our supervision or the fact that we will not discriminate. Indeed, when we come to the future regulatory framework for clearing and financial market infrastructure, the question of non-discrimination will come in.

I hear things from the other side of the channel sometimes—"Well, in a crisis the UK will give preferential treatment to its own firms", and the like. Bluntly, that is absurd. If you look at the history of the great financial crisis, we did not prioritise UK firms; we took a hit. German investors in UK banks were treated exactly the same as anyone else. I make the obvious point that we would not be a global financial centre with the reputation we have if we discriminated in that way. I cannot see the foundation for that, "We can't trust the UK in a crisis. What might it do?", in financial services, to be honest, and many of the people on the other side share that view.

There is always the question with strategic autonomy of whether you trust somebody today, and whether you are prepared to trust them in the supply of PPE or vaccines, or whatever. If the whole world pursued strategic autonomy in financial services, we would lose a lot of the benefit of a global integrated financial system. You have to work on common standards, trust, and regulatory and supervisory co-operation to manage risks, in my view. That is a long answer to your question.

Baroness Couttie: That is very good. Thank you very much.

The Chair: There are two very short, tidying-up questions. One is from Lord Hannay.

Q35 **Lord Hannay of Chiswick:** Could we look at an issue that does not so much directly affect financial services, but I would like to know how much it does affect it, and that is the issue of the data adequacy decision on GDPR, which exists at the moment but which is, to some extent, precarious? How much would it matter to financial services if that went? Would it matter a lot?

Sir Jon Cunliffe: In the run-up to the actual Brexit date, we did a lot of work on data and looked at what would happen if the adequacy was not there. There are fallbacks. One fallback is the conditions that go into individual contracts about the protection of data, and I think there is also a fallback that, when there is sharing about data within firms, you can use intra-company arrangements.

Some of this was being challenged in the European Court, in the Schrems case. I will be honest; I cannot remember how Schrems came out in the end. I think there are fallbacks, and companies are working on workarounds. That said, I do not think that the fallbacks provide the degree of frictionless passing of data that adequacy provides, and my

guess is that the adequacy decision is important. It might not be life or death, but I think it would be important if it was not there.

Lord Hannay of Chiswick: The Bank will speak up if there is a debate in the British Government about how far to diverge on data.

Sir Jon Cunliffe: It is for the British Government to decide how far to diverge on data. The Bank is a technocratic institution that operates within our statute and our objectives. We advise on the financial stability consequences, of course, because that is the requirement of the objective of the FPC, but there are many things that go into government decisions, as I think we know, and the impact on the finance sector is one of them. Within our objectives we would advise on the impact, yes.

Lord Hannay of Chiswick: Thank you.

Q36 **The Chair:** The final question is from me. There was a certain amount of newspaper comment that suggested that, to the extent that any business had been lost from the London financial markets, that business had in fact gone to New York and the USA. Strangely, you were talking about derivatives trading as an example. I wondered whether there were other examples and whether that is the case. Not much business, I think, has been lost anyway.

Sir Jon Cunliffe: I cannot think of another example. The derivatives trading was simply because two non-equivalence decisions left European firms with nowhere else to go but a third country. I cannot think of any other examples where there has been a big shift to the US because of Brexit up to now, but there may be some. I go back to the point I made to Lord Hannay: sometimes it will be difficult to know exactly why a company has taken a decision, and this may have been one of a number of factors that caused them to shift business back again

The Chair: Thank you very much indeed. You have been amazingly helpful. You have stayed more than your 90 minutes, thanks to our vote. You have even promised some follow-up, I am afraid, over equivalence. We are all very grateful for the frank way in which you have responded to our questions. Accordingly, we will leave it there. Thank you very much.