



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

27 May 2020

Lord Sharkey  
Chair of the EU financial Affairs Sub-Committee  
House of Lords  
London SW1A 0PW

Dear Lord Sharkey,

**RE: Review on Financial Services after Brexit**

Thank you for your letter dated 27 March 2020 and for setting out the Committee's findings from your review on financial services after Brexit. I was delighted to be given the opportunity to appear and give evidence.

The UK and the EU have a common interest in establishing an enduring relationship on financial services that is based on mutual trust and cooperation. As such, EU negotiations continue to be a priority for the Government, with the latest rounds taking place by videoconference in light of the Covid-19 crisis. Your report included several conclusions and recommendations on financial services after Brexit. I would like to take the opportunity to respond to each of these.

*Equivalence and its importance*

Your first recommendation proposes that the Government should identify, in close cooperation with the industry, the areas where equivalence is most important to UK financial services and prioritise these in the discussions with the EU. The Government's priority with respect to the Political Declaration commitments on equivalence is to seek equivalence across all the c.40 equivalence regimes which currently exist in EU legislation. Successfully concluding equivalence assessment and delivering comprehensive positive findings will be in the UK and EU's mutual interest and we can see no reason why the UK and EU will not be able to find each other equivalent across all existing equivalence regimes. As you will be aware, equivalence assessments are unilateral processes and thus not part of the ongoing negotiations on the future EU/UK partnership. In spite of the COVID-19 crisis, work continues in this area. The EU and the UK are currently conducting their own assessments in line with their internal processes.

*Improving the equivalence process*

I agree with your conclusion that the Government's position in the EU-UK FTA discussions must reflect the importance of financial services to the UK and EU economy. The future relationship will need to give both sides confidence that the arrangements in place protect and enhance financial stability, market integrity, investor and consumer protection. It is the

Government's position that this should include transparency and appropriate consultation in the process of adoption, suspension and withdrawal of equivalence decisions, while respecting the principles of autonomy. The Government wants to ensure that there are clear and coherent structures in place in the event that equivalence is withdrawn by either party, in order to stabilise equivalence as the basis of market access. The UK will seek to ensure the transparency and stability of an equivalence-based relationship while not compromising its autonomous nature.

### *Outstanding risks of disruption*

Your letter noted that risks to financial stability and disruption to financial services could materialise at the end of the Transition Period. You recommended that these risks should be urgently addressed and considered separately from the broader discussions on equivalence and the future relationship. As your letter notes, the UK authorities and industry have taken extensive action to prepare for the end of the Transition Period. These actions include the Temporary Permissions Regimes which will allow EEA firms currently operating in the UK via a passport to continue to conduct business in the UK for a limited period after the end of the Transition Period, while they seek full UK authorisation, and UK firms have carried out comprehensive restructuring to enable them to continue servicing EEA clients.

While the UK has taken the action that it can to mitigate risks of disruption to cross-border financial services, the Bank of England's Financial Policy Committee has judged that further action by EU authorities is needed to mitigate these risks. Risks relating to cleared and uncleared derivatives can be mitigated through positive equivalence decisions from the EU, and positive data adequacy decisions for the UK would enable the free flow of personal data between the EU and UK after the end of the Transition Period.

### *A new approach to financial regulation and Giving regulators a competitiveness objective*

Your report makes a number of recommendations with regard to the UK's approach to financial regulation, focusing on the opportunity that Brexit provides to delegate more powers to the financial regulators, in order to make the UK regime more flexible and responsive to change. It highlights that delegating more powers to the financial regulators will require enhanced parliamentary oversight of their activities. It also highlights that Brexit has led to an increased focus on UK competitiveness, and the role of the regulators in promoting this.

I agree that these are important issues, that the Treasury will need to consider, with Parliament, in designing the UK's approach to financial regulation now that the UK has left the EU. The next phase of the Future Regulatory Framework review will set out how the government proposes to address these questions, and will seek views from Parliament, industry and other interested parties. The Treasury is considering the timing of this next phase, in light of the Covid-19 crisis, and intends to say more in the second half of this year.

Thank you also for welcoming the creation of the Financial Services Regulatory Initiatives Forum, and Regulatory Initiatives Grid. I would like to draw to your attention the first Regulatory Initiatives Grid, which was published by the FCA on 7 May, providing a forward-look of major, publicly announced, regulatory initiatives over the next year, including where the Treasury and the regulators have chosen to delay initiatives, allowing industry to focus on supporting UK households and businesses through the Covid-19 crisis.

### *Making rules fit for purpose*

Your report notes the need for strong regulatory dialogue and cooperation with the EU to ensure that future divergence can be managed after the end of the Transition Period, once the UK and EU can both review and adjust their own rules. The report recommends that the Government should seek to agree a process for structured regulatory dialogue in financial services in FTA discussions with the EU. The UK and the EU have a common interest in establishing an enduring relationship on financial services that is based on mutual trust and cooperation. We are willing to look at regulatory cooperation arrangements that reflect the level of access between our markets, that are “grounded in the economic partnership” as stated in the Political Declaration, and that seek to establish processes for dialogue.

### *Opportunities for regulatory divergence*

Leaving the EU means the UK will have the ability to determine our own rules for the financial services sector and your report provides recommendations for opportunities for regulatory divergence. The Political Declaration is very clear that both sides will retain autonomy over decisions relating to regulation and equivalence.

I agree that freedom to change the rules does not mean a bonfire of regulation. The Government is committed to the highest standards of regulation and appropriate levels of supervisory oversight. Where we do make changes, they will be for good reasons. Our starting point will be what’s right for the UK, to protect our economy and to ensure financial stability. That’s why we have already announced, as part of the Financial Services Bill in the Queen’s Speech, a commitment to implementing the remaining Basel 3 reforms, in a full, timely and consistent manner, showing the UK will continue to provide global leadership on high standards of regulation.

### *The need for global regulatory cooperation and leadership*

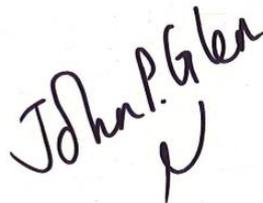
Your report provides the recommendation that the Government, in close cooperation with the regulators and industry, must take a leadership role and proactively seek to shape the discussions at multilateral fora, in order to develop common global standards around areas such as fintech.

The UK recognises the value in continued engagement at multilateral fora and is committed to the development of global standards in areas of common interest. The UK is a recognised global leader in the development of international standards for financial regulation.

Through organisations such as the G20, Financial Stability Board (FSB), and the Basel Committee on Banking Supervision, the UK has led the way in a number of key reform areas. On fintech, the UK benefits from strong government support, access to skills, robust domestic demand and flexible regulators who play a leading role in promoting international standards. The FCA's role in developing the Global Financial Innovation Network has also strengthened relationships between international regulators.

I also agree that the Government should take the opportunities after Brexit to develop closer bilateral relations with jurisdictions with which it shares a common approach to promoting cross border financial services. It is the Government's intention to deploy our independent financial services trade and regulatory powers to enhance our links to key global financial centres, combatting market fragmentation, improving collaboration between states and promoting cross border activity. This complements the Government's continued work to develop our relationships with advanced and emerging economies through our series of longstanding Economic & Financial Dialogues.

I am copying this letter to Rishi Sunak MP, Chancellor of the Exchequer and Mel Stride MP, Chair of the Treasury Select Committee.

A handwritten signature in black ink that reads "John P. Glen" with a stylized flourish underneath.

JOHN GLEN