



# HOUSE OF LORDS

European Union Committee

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Dear John,

Thank you for giving evidence to the House of Lords EU Services Sub-Committee on 2 July 2020 on the UK-EU negotiations in financial services and UK financial services after Brexit.<sup>1</sup>

We would like to follow-up on a few of the points that were raised during the discussion. These relate to the UK-EU equivalence decisions, future UK-EU regulatory cooperation and the future regulatory framework for UK financial services.

### *The UK-EU equivalence decisions*

We regret that the EU did not complete its equivalence assessments of the UK by the June deadline agreed in the Political Declaration, despite the UK currently being aligned with EU rules. Michel Barnier told the House of Lords EU Committee that the EU's assessment process should finish "over the summer" and that "the time for decisions is in the autumn". We strongly believe that these should be adopted for all areas where there are equivalence provisions, given the UK's existing regulatory alignment with the EU, and as soon as possible.

During our oral evidence session, you told us that the UK has completed its equivalence assessments for the EU. However, you also said that the Government is not expected to "unilaterally to make that decision known in the context of the EU not completing the process" and hoped that "through continued dialogue we will be able to share those understandings between us." Does this mean that the Government's own equivalence decisions should not be expected until autumn and that these will only be published alongside the EU's decisions? How will this interact with the Government's equivalence decisions for other third countries and its upcoming guidance document on the UK's equivalence framework?

### *Future UK-EU regulatory cooperation*

The Political Declaration on the future UK-EU relationship noted that "close and structured cooperation" on financial services is in the interest of both sides. It said that this cooperation "should include transparency and appropriate consultation in the process of adoption, suspension and withdrawal of equivalence decisions, information exchange and consultation

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<sup>1</sup> An uncorrected transcript from this meeting is [available here](#).

on regulatory initiatives and other issues of mutual interest, at both political and technical levels.” We believe that this level of ambition was not reflected in the EU’s negotiating mandate.<sup>2</sup>

The Government has repeatedly called for the creation of a “structured dialogue” with the EU on financial services, as have both UK and EU industry groups. However, in a speech given on 30 June, Michel Barnier reaffirmed the EU’s position that there should only be a “voluntary framework for dialogue” on financial services. In your view, how would such a voluntary framework differ from the structured dialogue being proposed by the Government? What limitations would it entail? What further reassurances can you give that such a structured dialogue would not “severely limit the EU’s regulatory and decision-taking autonomy”, as suggested by Mr Barnier?

#### *The future regulatory framework*

On 23 June, the Government published a number of documents outlining the future direction of UK financial regulation. We support the Government’s plans to delegate greater powers to the UK financial regulators when implementing the international Basel III standards, which was recommended by our predecessor committee. We also welcome that, in turn, the financial regulators will be subject to an enhanced accountability framework and we look forward to further details on this from the PRA and FCA.

We understand that the Government will soon be consulting on the second phase of its Financial Services Future Regulatory Framework Review, which Katharine Braddick, Director General for Financial Services at HM Treasury, described as “absolutely central to ensuring a really effective debate about the alignment of accountability and responsibility”. Given the importance of this discussion, how does the Government intend to engage with Parliament to ensure this issue is fully understood and does not result in insufficient parliamentary scrutiny in the UK’s future regulatory framework? Will the Government’s consultation outline specific proposals for enabling parliamentary oversight and consider models of accountability that exist in other jurisdictions?

We would like to thank you again for giving evidence to our committee and we look forward to your response in due course.



Baroness Donaghy  
Chair of the EU Services Sub-Committee

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<sup>2</sup> The language in the EU’s negotiating mandate differs slightly from the Political Declaration in calling for “close and appropriately structured voluntary cooperation”.