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European Affairs Committee

1st Report of Session 2022–23

The UK-EU relationship in financial services

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European Affairs Committee

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See Appendix 1.

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SUMMARY

Introduction

The UK financial services sector is of vital importance to the UK economy as a whole, employing 2.3 million people and making up 10% of total UK tax receipts. Though traditionally closely associated with the City of London, the sector is well-established across the UK; two thirds of employment in the sector is outside London. The sector is also an important contributor to the UK's international trade, comprising 19.1% of all UK services exports.

The EU is an important trading partner in this sector, making up 37% of total UK financial services exports in 2019. The post-Brexit UK-EU Trade and Cooperation Agreement (TCA) contained few provisions for trade in Financial Services, but this had long been anticipated and prepared for. Financial services jobs have moved from the UK to the EU as a result of Brexit, but in far smaller numbers than some expected; current estimates suggest 7,000 jobs have moved, compared to estimates of 75,000 in 2016. Nevertheless, the Committee warns against complacency in this regard, as it is not yet clear whether the impact of Brexit on employment has fully played out.

While acknowledging the challenges that Brexit has presented for the sector, witnesses the Committee spoke to were largely optimistic in their outlook. London has retained its position as the world's second largest (or most important) financial centre and the most important in Europe, and there was a strong sense among the witnesses we spoke to that the sector has retained its resilience. However, the Government must ensure that its approach to financial services delivers for the whole country and the whole economy as well as the City of London.

Equivalence

A notable dimension of the current UK-EU relationship in financial services is the absence of EU equivalence decisions. This is particularly striking when set against the EU's approach to other third countries (as well as the UK's own approach to equivalence vis-à-vis the EU). The Committee found a consensus among its witnesses that this approach by the EU is political rather than technical and that the UK is being held to a higher standard than other countries.

Some of the missing equivalence decisions would be mutually beneficial for the UK-EU trading relationship in financial services. But the sector does not seem to view either the general lack of equivalence decisions or the competitive imbalance compared to other third countries as a matter of fundamental concern. Moreover, as equivalence decisions are unilateral in nature, the Government's ability to rectify the absence of EU decisions is limited. The Committee concludes that it would be unwise for the Government to base its strategy for financial services on a process that it cannot control, and which currently seems unlikely to bear fruit.

Regulatory cooperation

The UK and the EU committed, alongside the TCA, to a Memorandum of Understanding (MoU) on regulatory cooperation, yet this has still not been signed or entered into force. The Committee regrets this and notes the widespread view that the MoU has become a casualty of wider tensions between the Parties. As with equivalence, comparisons with other third countries are

striking; both the UK and the EU have mechanisms for regulatory cooperation with the USA that they do not have with each other.

The Committee acknowledges that the lack of the MoU does not appear to have caused major problems so far, particularly as a series of other MoUs for technical cooperation between regulators are in place. Nevertheless, the Committee believes that the MoU would still have value as a mechanism for strategic dialogue. We therefore caution the Government against complacency in this area. We also call on the Government to step up its political and diplomatic financial services engagement with the EU.

Regulatory reform and divergence

Having onshored the EU's regulatory framework for financial services at the point of Brexit, the UK's current rules for financial services are very closely aligned with those of the EU. The Committee welcomes the short-term stability that this has provided but recognises that it has resulted in a complex and unwieldy regulatory framework. To rectify this, the Government is seeking to give more powers to financial services regulators. While this may allow for more flexible and proportionate regulation, greater powers for the regulators must be accompanied by appropriate mechanisms for scrutiny and accountability. The Government is also considering introducing an additional 'competitiveness' objective to the remit of the regulators; this has been the subject of debate and the Committee has asked the Government to clarify how this would operate in practice.

The Committee welcomes the launching of a number of reviews into the future regulation of financial services in the UK. We await the Chancellor's first annual 'State of the City' report, as recommended in the UK Listings Review, and recommend that the first five editions of this annual report include a dedicated section on the UK-EU relationship on financial services. More broadly, the Committee agrees with its witnesses that divergence between the UK and the EU is inevitable and may present the UK with opportunities to innovate and tailor the UK's regulation to its own interests. However, it also stresses that the Government needs to weigh up the benefits of divergence against other factors including the costs of implementing new rules.

Divergence is also likely as the result of developments in the EU, particularly the emphasis placed by the EU on 'open strategic autonomy'. This focus on control and market location is philosophically different to the UK's approach, and we are concerned that it could increase barriers to cross-border trade in financial services. The UK has inevitably lost influence in the development of future EU rules post-Brexit, but we are concerned that the Government appears unwilling to utilise the influence it still has and have asked it to clarify its position. This is part of a detectable theme that emerged in other areas of our inquiry: that the Government is reluctant to fully engage with the importance of the UK-EU relationship, or to acknowledge that developments in the EU still have significance for the UK.

Opportunities

As well as adapting its existing regulatory framework, there are also opportunities for the UK to establish new rules in forward-looking and novel areas where there is currently limited regulation, particularly in the areas of financial technology ('FinTech') and green finance. In both areas the UK has already shown ambition and creativity, which we welcome.

Another potential Brexit opportunity is the pursuit of new trade agreements with third countries. Free Trade Agreements often make little provision for financial services, but the Government is exploring alternative approaches, most notably by negotiating a Mutual Recognition Agreement (MRA) with Switzerland. The Committee welcomes this ambition and hopes that an agreement is concluded swiftly.

More broadly, the Committee welcomes the Government's open and non-reciprocal approach to financial services, though we urge them to continue to recognise the importance of immigration and access to talent in ensuring the sector remains open for business.

Conclusion

Overall, the outlook for financial services after Brexit seems relatively positive. Most of the Committee's witnesses were optimistic about both the Government's approach and future opportunities more broadly, marking a contrast to some of the other sectors of the economy that this Committee and others have examined. However, the UK is at an early stage of the adjustment to life outside the EU and there is no room for complacency, particularly as the impact of Brexit on the sector has not yet fully played out. We therefore urge the Government not to disregard the importance of a cooperative and constructive UK-EU relationship in financial services.

The UK-EU relationship in financial services

CHAPTER 1: INTRODUCTION

This inquiry

1. In January 2021, the predecessor to this Committee, the House of Lords European Union Committee, launched a coordinated series of inquiries, culminating in reports analysing the UK-EU Trade and Cooperation Agreement (TCA) and its implications for the future of UK-EU relations. Among these was a report by the former EU Services Sub-Committee, titled 'Beyond Brexit: Trade in Services', which concerned trade in services and connected issues between January and March 2021.[1] That report included a chapter covering matters related to financial services.

2. This report is based on an inquiry undertaken by the European Affairs Committee, whose Members are listed in Appendix 1, between February and April 2022.

3. The scope of the inquiry included the impact so far on the UK financial services sector of the UK's exit from the Single Market; the impact of the absence of a functioning framework for UK-EU regulatory cooperation; the future of cross-border financial services in the absence of equivalence; and the impact of regulatory divergence and agreements with third countries on UK-EU financial services trade. The future of the insurance sector and the Government's proposed reforms to Solvency II fell outside the formal scope of this inquiry but have been mentioned where a failure to do so would result in an incomplete analysis of the facts at hand.

4. The inquiry involved six oral evidence sessions with experts, industry representatives and representatives of UK financial services regulators and the Bank of England between 8 February and 5 April 2022; an oral evidence session with the Economic Secretary to the Treasury and City Minister, John Glen MP, on 26 April 2022; and 12 written evidence submissions. We are grateful to all our witnesses, who are listed in Appendix 2.

5. This report is divided into five chapters, first setting out the general background to the financial services sector and how it has been affected by the UK's exit from the EU, before examining equivalence, regulatory cooperation, regulatory reform and divergence, and future opportunities for the sector outside the EU.

6. To assist the Committee with this inquiry, and to provide the expertise necessary for the questioning of witnesses and the drafting of this report and its conclusions and recommendations, the Committee was pleased to appoint Professor Sarah Hall, Professor of Economic Geography in the Faculty of Social Sciences at the University of Nottingham, and a Fellow of UK in a Changing Europe as specialist adviser to the inquiry. The Committee is grateful to Prof Hall for her service.

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1 European Union Committee, *Beyond Brexit: trade in services* (23rd Report, Session 2019–21, HL Paper 248)

Financial services in the UK

7. Financial services, the Committee heard, "are important in any economy, because they support activity in every other part of economic life: from holding and protecting money for customers, to channelling savings into lending to government, and much more."[2] This is particularly the case in a UK context. The sector is an important component of the UK economy: according to TheCityUK's December 2020 report, *Key Facts About the UK as an International Financial Centre 2020*,[3] the UK's trade surplus in financial services was $77 billion in 2019, making it the world's largest net exporter of financial services. In evidence submitted to this inquiry, the trade association UK Finance described financial services as "the UK's most successful international export". The organisation added that "the EU is a key market for those firms operating in the UK"[4], which is supported by data from the Office for National Statistics (ONS): in 2019, 37% of the UK's financial services exports went to the EU (compared with 30% to the USA over the same period).[5]

8. The UK's financial services sector is not only significant to the domestic economy; it is also vital for the functioning of the wider global economy. Driven by its location, bridging time zones between the major financial services centres in East Asia and the Americas, and lying in close proximity to the EU, the world's largest trading bloc, the sector plays a pivotal role in the world's financial markets. Its participants "benefit from an ecosystem recognised for its openness, global connections and a culture of collaboration"[6]. English law, with its well-respected courts, its mature arbitration system, and its world-class legal services sector is frequently selected as the governing law for international contracts.

9. As a result, London has developed "the largest financial services cluster in the world" ,[7] having "the deepest and broadest capital market in Europe, if not one of the two premier capital markets in the world",[8] and an insurance market "bigger than all of its competitors combined".[9]

10. While financial services are most frequently associated with the City of London, Mayfair, and Canary Wharf, the sector is widely and deeply distributed across the UK. Lord Hill of Oareford, former European Commissioner for Financial Stability, Financial Services, and the Capital Markets Union, commented that one "cannot disassociate what is happening in the City from the broader economic policy framework for the rest of the country"[10]. Sir Jon Cunliffe, Deputy Governor of the Bank of England, noted that "There are other big centres [outside London]. Edinburgh is big for insurance, and for some of the ancillary services such as legal and

2 Written evidence from UK Finance (RFS0005)
3 TheCityUK, Key Facts About the UK as an International Financial Centre 2020, (December 2020): https://www.thecityuk.com/media/0a1hidsm/key-facts-about-the-uk-as-an-international-financial-centre-2020.pdf [accessed 16 June 2020]
4 *Ibid.*
5 Office for National Statistics, 'The Pink Book, 03 Trade in Services' (29 October 2021): https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/3tradeinservicesthepinkbook2016 [accessed 8 June 2022]. Note that the ONS categorises insurance separately and insurance exports are therefore not included within these figures.
6 Written evidence from the City of London Corporation (RFS0002)
7 *Ibid.*
8 Q 79 (Michael Dobson)
9 Written evidence from London Market Group (RFS0009)
10 Q 65

accounting Birmingham is a big centre."[11] This was echoed by the Economic Secretary:

> "I think it is often overlooked that two-thirds of jobs in financial services are outside London. With the fund management industry in particular there are hubs … in different parts of the United Kingdom—in Edinburgh, Leeds and Bristol and I visit them all. Some of the wider government policy with respect to freeports … is designed to encourage that."[12]

11. It is inevitable, therefore, that the sector is a major employer. The City of London Corporation estimates that some 2.3 million people are employed in the financial and professional services sector, meaning that approximately 1 in 14 of all UK jobs are in financial services or its ancillary professions.[13]

12. The size and strength of the sector, and of its workforce, mean that is a significant contributor to the UK's overall tax revenue. The City of London Corporation calculated that the sector generated more than 10% of the UK's total tax receipts in 2019/20, a contribution of approximately £75.6 billion.[14] The Economic Secretary told us that tax receipts had been resilient since the UK's departure from the EU, remaining at "around £30 billion, or £75 billion in the broader sector."[15] The Minister undertook to provide a breakdown of the figures to confirm his position. We have not yet received them.[16]

13. **The Committee asks the Government, in its response to this report, to provide a detailed breakdown of the figures for PAYE and corporate tax receipts for the previous five years, to support the Economic Secretary's view in his evidence that tax receipts from the financial services sector have been resilient since Brexit.**

Brexit and financial services: a brief recap

14. On 24 December 2020, the UK and EU announced that they had reached an agreement on the future relationship. The EU-UK TCA was published on the same day and came into force on 1 January 2021. The domestic legislation needed to give effect to the TCA was passed by the UK Parliament on 30 December 2020, prior to ratification. The TCA applied provisionally from 1 January 2021. It entered into force on 1 May 2021 after both Parties had completed their ratification processes.[17]

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11 Q 32 (Sir Jon Cunliffe)
12 Q 113 (John Glen MP); see also Q 4 (Miles Celic).
13 Written evidence from the City of London Corporation (RFS0002)
14 City of London Corporation, *The total tax contribution of UK financial services in 2020* (February 2021): https://www.cityoflondon.gov.uk/assets/Business/total-tax-contribution-2020.pdf [accessed 7 June 2022]
15 Q 94
16 *Ibid.*
17 Council of the European Union, 'EU-UK trade and cooperation agreement: Council adopts decision on conclusion' (29 April 2021): https://www.consilium.europa.eu/en/press/press-releases/2021/04/29/eu-uk-trade-and-cooperation-agreement-council-adopts-decision-on-conclusion/ [accessed 8 June 2022]

15. The TCA's short section on financial services[18] states that the UK and the EU shall:

- apply internationally agreed standards in the financial services sector;
- permit companies from the other Party to supply any new financial service as they would a domestic company;
- ensure that any relevant self-regulatory organisation observes obligations under other provisions of the TCA; and
- grant access to payment and clearing systems and official funding and refinancing facilities to financial services suppliers of the other Party established in their territories.[19]

16. Rachel Kent, Partner at law firm Hogan Lovells, characterised the provisions concerning financial services in the TCA as "anti-discriminatory measures" that "protect the status quo rather than giving [the UK's financial services sector] something that was an additive."[20] However, the relative lack of detailed provision about financial services in the TCA had long been anticipated and discussed across government, in the media and within the sector, and this gave the sector the opportunity to make detailed preparations for the post-Brexit world.

17. The witnesses to the inquiry were, by and large, optimistic about the future of the UK's financial services sector under the TCA. Although Miles Celic, Chief Executive Officer at TheCityUK, told the Committee that "more could have been done for financial services" in the TCA, he added that the industry had always taken the view that it would "hope for the best but plan for the worst" and that his organisation had been "very pleased at the end of the transition period that there was no effective disruption in the service being provided to clients or customers."[21] He added, "The mood, the perspective, within the industry at the moment is that there is no point trying to navigate by looking in the rear-view mirror. We have left the European Union. The challenge now is to make the best of that".[22]

18. Dr Gerard Lyons, Senior Fellow at the think-tank Policy Exchange and Chief Economic Strategist at wealth management firm Netwealth Investments,[23] was even more bullish, asserting that "the misplaced, widespread pessimism that prevailed before 2016 has proved ill-founded … London has retained its position as Europe's leading financial centre and a major global centre"[24]. He highlighted London's retention of its second-place ranking (behind New

18 In written evidence, Graham Bishop, an independent consultant on European financial services matters, told the Committee: "The [TCA] treaty texts are massive—running to 1259 pages—but only about six pages are relevant to financial services and largely covered in just four Articles" [3.5, 5.38, 5.39, and 5.41]. Written evidence from Graham Bishop (RFS0011); see also written evidence from Dr Andromachi Georgosouli and Prof Rosa Maria Lastra (RFS0010).

19 A more detailed explanation of the TCA's operation in terms of the trade in services with the EU can be found in the European Union Committee's report *Beyond Brexit: trade in services* (23rd Report, Session 2019–21, HL Paper 248).

20 Q 1

21 *Ibid.*

22 Q 9

23 In his evidence to the Committee, Dr Lyons also highlighted his other roles in the City of London, as a board member of both the Bank of China and BGC Partners. Q 1

24 Q 1

York) in the Z/Yen Survey,[25] "widely seen globally as the best barometer of the league table of financial centres."[26]

19. It would be wrong, however, to say that nothing changed at the end of the transition period. Some businesses have had to make operational and structural adjustments to be able to continue to conduct business between the UK and the EU. For the insurance sector, the London Market Group explained that: "A loss of financial services passporting rules and no financial services trading provisions within the UK-EU TCA has meant that companies have had to restructure in order to continue serving clients within the EU."[27] This means that "Both brokers and underwriters have … been compelled to create new EU based subsidiaries which have branched back into the UK … The question is whether the European authorities will still accept the handling of key insurance functions from London."[28]

20. This analysis was supported by the think-tank New Financial which stated that, as of February 2021: "nearly 500 firms based in the UK have responded to Brexit in some form by relocating part of their business, staff, legal entities, or capital to the EU to ensure continuity of access to EU markets and customers in both directions."[29] New Financial also suggested that:

> "the impact of Brexit depends heavily on the sector of activity. In some sectors, such as markets and investment banking, adapting to Brexit has been a complex and expensive exercise … In other sectors like asset management and insurance it has been an administrative headache … Some sectors of activity, such as FX trading, are largely unaffected."[30]

21. In terms of the overall impact of Brexit on the financial services sector, New Financial estimated "that around 20% to 25% of UK financial services activity is related to the EU and that as much as half of that may need to relocate in some form to the EU over time."[31] However, as set out in paragraphs 29–30, some other witnesses took the view that the relocation of financial services activity was something that had now taken place rather than an ongoing process. Despite their concerns, New Financial believed that, given its status as one of only two global financial centres (alongside New York), the City of London "will continue to be the dominant financial centre in Europe".[32]

What the trade data says

22. As noted in Paragraph 7, the UK runs a significant trade surplus in financial services. The *Office for National Statistics Pink Book 2021* states that total UK financial service exports in 2019 were £62.66 billion (19.1% of all UK services exports) compared with imports of just £16.9 billion (8% of all

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25 Z/Yen & the China Development Institute, The Global Financial Centres Index 31 (March 2022), p 4: https://www.zyen.com/documents/2902/GFCI_31_Report_2022.03.24_v1.0.pdf [accessed 8 June 2022]

26 See also Q 79 (Michael Dobson): "We continue to think that London is probably the best global financial centre for the asset management business. I do not think it has hindered our ability to attract talent". Mr Dobson added that Brexit "has had pretty much zero impact, which was broadly in line with our expectations".

27 Written evidence from London Market Group (RFS0009)

28 *Ibid.*

29 Written evidence from New Financial (RFS0006)

30 *Ibid.*

31 *Ibid.*

32 *Ibid.*

UK services imports).[33] This trade ratio is broadly replicated when looking specifically at the trade between the UK and the EU: exports to the EU of £23.3 billion against imports of £5.46 billion.

23. In 2019, as a snapshot of the relative importance of the EU as a market for the UK's financial services prior to the UK's departure from the EU, 37% of the UK's financial services exports were to the EU, compared with 30% to the USA. For imports, the respective figures were 32.5% from the EU and 35% from the USA. The total trade in financial services between the UK and the EU during that period was worth £28.75 billion, compared with £24.75 billion for trade between the UK and the USA.[34]

24. There is some evidence, however, that the EU has been declining as a share of the UK's total financial services trade. Between Q1 2019 and Q1 2021, UK financial services exports to the EU grew by 1.35%. However, over the same period, financial services exports to the rest of the world grew by 5.24%. At the same time, imports from the EU fell by 35.2%, resulting in the EU's share of total UK financial services imports declining from 35.7% to 25.3%. In the assessment of the ONS, it is too early to untangle the impact of the COVID-19 pandemic from that of the UK's exit from the European Union, but the latter may be a factor.[35]

25. In its analysis of the ONS data, the House of Commons Library concludes that:

> "Between 2019 and 2020, the value of UK financial services exports to the EU fell by 8% … In 2020, the fall in financial services exports to the EU was most pronounced in Q2 and Q3, owing to disruptions in economic activity caused by the coronavirus pandemic … Financial service exports to the EU have continued to fall in 2021, falling by 5% between Q4 2020 and Q1 2021 and by a further 5% between Q1 and Q2 2021. Compared to 2019 and pre-COVID levels of trade, financial services exports to the EU were 31% lower in Q2 2021 than Q2 2019."

In contrast to this:

> "Financial service exports to non-EU countries continued to grow in the first quarter of 2021, growing by 8% between Q4 2020 and Q1 2021. While exports to non-EU countries fell in Q2 2021 compared to Q1, compared to 2019 and pre-COVID levels of trade, exports of financial services to non-EU countries were 5% higher in Q2 2021 than Q2 2019."[36]

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33 Office for National Statistics, 'The Pink Book, 03 Trade in Services' (29 October 2021): https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/3tradeinservicesthepinkbook2016 [accessed 8 June 2022]. These figures do not include insurance services, which are classified separately by the ONS.

34 Office for National Statistics, 'The Pink Book, 03 Trade in Services' (29 October 2021): https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/3tradeinservicesthepinkbook2016 [accessed 8 June 2022]

35 Office for National Statistics, 'The impacts of EU exit and coronavirus (COVID-19) on UK trade in services: July 2021': https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/theimpactsofeuexitandcoronaviruscovid19onuktradeinservices/july2021#exports-and-imports-of-services [accessed 8 June 2022]

36 House of Commons Library, *Financial services: contribution to the UK economy, Research Briefing,* Number 6193 December 2021, Chapter 4.1

26. However, Miles Celic cautioned that, while the trade in financial services with the EU had declined since the end of the transition period, this reflected a trend that had been ongoing for several years beforehand.[37] This analysis is supported by the ONS data, which shows that the share of the UK's financial services exports going to the EU had fallen from 44.2% in 2015 to 37% in 2019 and further to 34.7% in 2020. This might suggest that the implementation of the TCA, and the loss of the passporting rights enjoyed prior to the end of the transition period, are not necessarily the primary drivers of the fall in exports to the EU.

Job and business moves

27. Miles Celic cited the report prepared for TheCityUK in 2016 by management consultants, Oliver Wyman, stating that the report calculated that a "very hard"[38] Brexit would result in around 75,000 jobs leaving the UK's financial services sector over a period of 5 years.[39] Jobs leaving the UK since 2016 have also been tracked by the professional services firm, EY. Andrew Pilgrim, UK Government and Financial Services Leader at EY, explained to the Committee that his organisation tracked job movements "on the basis of public announcements" from 222 firms.[40] On the basis of this methodology, as of the latter part of 2016, EY calculated that 12,000 jobs had been announced as moving from the UK to the EU.

28. At the time of his appearance before the Committee, however, Andrew Pilgrim reported that tracked job moves out of the UK so far stood significantly below that late 2016 figure, at 7,400.[41] During the course of this inquiry, the number was further revised down to 7,000.

29. Dr Lyons was confident that the final number of job moves would not increase much further:

> "firms have had to take action based on their own business model. Firms that have a presence in London but previously served EU-based clients from London have had to move some of their staff to the continent, which in many respects was expected. The general perception across the City is that that move has now taken place."[42]

30. This optimistic outlook was shared by Michael Dobson, the then[43] Chairman of asset management firm Schroders plc. Mr Dobson stated that only one job in his firm had moved out of the UK[44] and that the "results for the industry have been considerably less bad than some people suggested they would be in the lead-up to the Brexit referendum. There were estimates of double what has happened in job losses from the City."[45]

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37 Q 2
38 Referred to in the report itself as a "Low access scenario": Oliver Wyman, *The Impact of the UK's Exit*, p 13: https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2016/oct/Brexit_POV.PDF [accessed 8 June 2022]
39 Q 2
40 Q 47
41 *Ibid.*
42 Q 1; see also Q 2.
43 Michael Dobson was Chairman of Schroders plc at the time of his appearance before the Committee on 5 April 2022 but retired later that month, before the publication of this report.
44 Q 79
45 Q 80

31. There was also a recognition among witnesses of the effect of the Temporary Permissions Regime. Under this regime, the Financial Conduct Authority (FCA) allows EU businesses that were using EU passporting rights to operate in the UK prior to the UK's departure from the EU to continue to do so until December 2023. Both Dr Lyons and Caroline Dawson, Partner at law firm Clifford Chance, noted that, as the date for the expiry of the scheme in December 2023 approached, many EU businesses were taking advantage of the regime to establish a permanent presence in the UK,[46] thereby potentially adding to the overall number of jobs within the UK financial services sector. New Financial, however, was sceptical about this, calling it "highly unlikely" that the establishment of UK offices could "offset relocation activity in the other direction", on the basis that using the Temporary Permissions Regime "is cost free whereas opening an office is not."[47]

32. Other witnesses also expressed caution. Sam Woods, Chief Executive of the Prudential Regulation Authority (PRA), noted that job moves have "not been a non-event, and nor are we at the end of it" but said that "so far, it has been manageable.[48] Sir Jon Cunliffe similarly took the view that the impact "is not finished yet … it will be a process of years."[49] New Financial argued that the industry was currently in "the second of three phases of Brexit-related relocation", and that further relocations might follow as the EU sought to repatriate activity conducted in the UK over the medium-term.[50]

33. Witnesses also warned against complacency over the number of job moves. Lord Hill said: "7,000 [jobs] is obviously at the low end … But that is not a reason to conclude that everything is fine and it has all settled down and we do not need to worry or try to make ourselves more competitive."[51]

34. With reference to the 75,000 figure originally cited by his organisation, Miles Celic also reminded the Committee that this was expressed as being over a period of five years from the point of the UK's departure from the EU, meaning the time to assess its accuracy would therefore be "in about three and a half years' time".[52]

35. Several witnesses also cited COVID-19 and its impact on working practices as one reason for jobs having not moved out of the UK so far,[53] and warned that, as travel restrictions eased and in-person working resumed, the picture was likely to change.[54]

36. Witnesses also expressed concern about Brexit's impact on jobs in terms of the opportunity cost to the UK and its financial services sector. In its written evidence to this inquiry, The City of London Corporation stated that "wider concern comes not from jobs leaving the UK, but new jobs in the EU being

46 Q 1 (Gerard Lyons) and Q 47 (Caroline Dawson)
47 Written evidence from New Financial (RFS0006)
48 Q 61
49 Q 28
50 Written evidence from New Financial (RFS0006)
51 Q 65
52 Q 3; see also Q 28 (Sir Jon Cunliffe).
53 See, for example, Q 15 (Miles Celic) and Q 80 (Stéphane Boujnah).
54 Q 47 (Caroline Dawson) and Q 80 (Stéphane Boujnah)

created in future that might otherwise have been created in the UK."[55] New Financial echoed this, adding:

> "In the past 10 years, tens of thousands of back-office jobs in banking and finance have been created in countries like Poland, Hungary, Portugal and the Baltics where firms have access to highly qualified but much cheaper staff in much cheaper offices. In this sense, Brexit may accelerate a wider restructuring of the industry, and support staff in cities like London, Bournemouth, Birmingham, Belfast, Glasgow and Manchester may be at risk."[56]

37. Lord Hill also warned that the UK should not be complacent about competition from outside the EU:

> "while we are both kicking bits out of each other and cutting off our nose to spite our face, the United States is opening up a bigger lead, as is Asia. For London, when it thinks about itself as a global financial centre, I think that we should be concentrating on the US and what is happening in other global financial centres … The international competition is not coming from within the EU, it is coming from the rest of the world."[57]

38. Further uncertainty about the potential for further job moves comes from the risk of legislative and regulatory changes on the part of the institutions of the EU and Eurozone. In spring 2020, the European Central Bank (ECB) launched a desk mapping review, investigating "booking and risk management practices across trading desks" with the aim of "ensuring that third-country subsidiaries have adequate governance and risk management capabilities and do not operate as empty shells."[58] On 19 May 2022, following the conclusion of the evidence-gathering stage of this inquiry, the ECB announced that, on the basis of its finding from the first phase of this review, "21% [(56)] of the 264 desks assessed during the first phase warranted targeted supervisory action." The ECB further warned that the review:

> "does not mark the end of the ECB's supervisory scrutiny of incoming banks' post-Brexit operating models … This work has a key overarching objective: to ensure that all … [standalone EU legal entities subject to supervision under the Single Supervisory Mechanism] … have prudentially sound risk management arrangements and a local presence which enables effective supervision and is commensurate with the risks they originate."[59]

39. This raises the very real prospect of further action on the part of the ECB that will have a material impact on the UK financial services sector's business models and operations, and a concomitant effect on jobs within the sector.

40. In terms of the Government's view of the impact so far of Brexit on the number of jobs leaving the UK's financial services sector, the Economic Secretary said he broadly accepted EY's 7,000 figure, saying: "The UK financial services sector … has not experienced the haemorrhaging of jobs

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55 Written evidence from City of London Corporation (RFS0002)
56 Written evidence from New Financial (RFS0006)
57 Q 64
58 European Central Bank, The Supervision Blog, 'The desks mapping review–integrating Brexit banks into European banking supervision' (19 May 2022): https://www.bankingsupervision.europa.eu/press/blog/2022/html/ssm.blog220519~3081950bac.en.html [accessed 9 June 2022]
59 *Ibid.*

that perhaps many anticipated when I came into office in January 2018. There have been modest movements of people to the continent". He added that he did not think it "inevitable that we will see lots more jobs move."[60]

Fragmentation of the EU financial services sector

41. In terms of the destination of jobs moving from the UK to the EU, there was general consensus among witnesses that no single EU city had emerged as the primary choice for relocations. Peter Bevan, Partner at law firm Linklaters, observed: "Inasmuch as new jobs have been created in the EU, they have been in multiple centres and split across the cities … There is no other single location that is so far growing in a way that would rival London".[61]

42. This was treated as indicative of a wider trend of the fragmentation of the EU's financial services sector, and a failure to consolidate job and business moves from the UK in a single EU centre with the resources and infrastructure to challenge the UK's dominance. Some witnesses saw this fragmentation of the EU financial sector across multiple EU centres as a strategic decision, with Miles Celic commenting that:

> "[what] the European Union seems to have adopted, at least for now, is a multicentre financial centre approach. There will be activity particularly in asset management, say, in Luxembourg. There will be investment banking in Frankfurt. There will be activity taking place in banking in Ireland, exchange activity in Amsterdam, work in Paris and so on."[62]

However, his view was that, if "the EU were successful in creating a multicentre approach … that would be historically and economically unusual." He contrasted it with the advantages the UK and London enjoy, citing a "cluster effect … an agglomeration effect that you get in a centre like London. There is the rule of law, English law, common law—a huge advantage—commercial dispute resolution, time zone, language, high-quality regulators that are well regarded globally."[63]

43. For these reasons, most witnesses agreed that the EU financial services sector currently posed little direct threat to the dominance of the UK sector in the international markets. Dr Lyons saw none of the EU financial centres as having "the broad-based strength or depth to challenge London."[64] Lord Hill agreed that "no single European centre has the critical mass that we have", adding that London was "resilient."[65] However, despite this resilience and the advantages conferred on the City by "the sheer concentration of people and scale in London who still want to be in London", Lord Hill urged against complacency, stating that there is "quite a lot to do to shore up that position and to try to equip ourselves to compete in new areas that are not yet regulated."[66]

44. On the other hand, Stéphane Boujnah, Chief Executive Officer of Euronext,[67] did not see the aforementioned "cluster effect" as quite so relevant in the post

60 Q 93
61 Q 47
62 Q 4
63 *Ibid.*
64 *Ibid.*
65 Q 66
66 *Ibid.*
67 Euronext is a pan-European bourse offering various trading services and post-trade services such as clearing, custody and settlement.

COVID-19 world. He argued that "COVID, as much as Brexit, has changed the way finance … [operates] over the past two years", meaning that the "concept of having teams located in a single location is not as relevant as it used to be. In reality, distributed but integrated and highly interconnected financial centres are working extremely well together".[68]

45. Other witnesses, however, saw real risks in the trend towards fragmentation of the financial services sector across the EU, interfering with the synergetic relationship between the sectors on either side of the English Channel and Irish Sea that risked mutual harm in the longer term. In Lord Hill's view,

> "the consequence of that greater fragmentation is that, crudely, the cost of raising capital increases. That means Europe's businesses find it harder to fund the recovery that the European economy needs to have. I think that it is a retrograde step … I do not think that it leads to a stronger system."[69]

46. **We welcome the fact that, overall, the UK financial services sector remains optimistic about its prospects for the future, and that significantly fewer jobs have so far left the sector than had been anticipated. This demonstrates both the continued strength and the resilience of the sector in the UK.**

47. **We warn, however, against any complacency in this regard, as it is not clear whether the full impact has yet played out. We note that there are many factors, both ongoing and on the horizon, including EU regulatory and political decision-making, that may have a significant impact on the sector, with the risk that further jobs will move out of the UK.**

48. **The fragmentation of job moves across EU financial centres highlights that no single EU financial centre has so far emerged as a serious rival to London. Nevertheless, the Committee is concerned that fragmentation could raise cost and reduce liquidity for businesses served by the UK and EU financial services sectors. We urge the Government to work with the EU, and its institutions, to ensure that London is able to maintain the depth and liquidity needed in order to continue to function as the prime source of capital for the European market.**

Asset and infrastructure moves

49. In contrast to his general optimism about the movement of jobs, Dr Lyons was much less sanguine about the loss of financial infrastructure,[70] declaring that this an "area that we cannot be complacent about and that does not get enough attention."[71] Similarly, Andrew Pilgrim of EY noted that, by

68 Q 81
69 Q 66; see also Q 81 (Michael Dobson).
70 Financial services is supported by infrastructure such as payment systems, clearing houses and data centres. In an example of such a move, in June 2022 Euronext moved its data centre from Basildon, Essex, to Bergamo in northern Italy. Speaking on behalf of Euronext, Stéphane Boujnah said that this move was "somewhat because of Brexit" but that other factors were also at play. Q 80
71 Q 13

December 2021, "£1.3 trillion-worth of assets[72] had been transferred from the UK to the EU".[73]

50. From an EU-based perspective, Stéphane Boujnah did not attribute this entirely to the UK's exit from the EU. He noted on a related point that "more international companies, which in a previous world would have considered London as a venue for their international listing, are now considering Euronext". However, he saw this as being due to a combination of factors: "there is no straightforward distinction between the two factors of the corporate dynamic and competition between Euronext and the London Stock Exchange Group versus the sole Brexit impact."[74]

51. **We note the movement of assets and infrastructure out of the UK. We ask the Government to set out what steps it is taking to monitor this and to ensure that it does not harm the competitiveness, profitability, or operational capabilities of the UK's financial services sector. We also ask the Government to set out in its response to this report what assessment it has undertaken of the costs and risks to the sector and the wider UK economy by the movement of assets and infrastructure out of the UK following Brexit.**

UK Government policy for the future of financial services

52. The Economic Secretary set out the Whitehall architecture in terms of departmental and ministerial responsibility for the sector, telling the Committee that, within the Treasury, he is "responsible for financial services and financial services policy" and works "closely" with the Foreign, Commonwealth and Development Office and the Department for International Trade (DIT): "I take the lead and we reach out to the Foreign Office and DIT where appropriate, and they reach out to us, to me and to my office, where appropriate."[75]

53. The Government has consistently stated its aim of seizing the opportunities of Brexit. In respect of financial services, the Government's policy aims have been most comprehensively elucidated in the Chancellor of the Exchequer's Mansion House Speech of 1 July 2021,[76] and the accompanying policy paper, *A new chapter for financial services* (published on the same date).[77] These interventions set out the wider strategy that the Government intends to pursue for the future of UK financial services outside the EU. The speech and paper cover a range of areas, including regulation; the positioning of the UK as an internationally open globally competitive financial hub; the opportunities to develop new trading relationships with other third countries outside the EU, notably Singapore, the US and Switzerland; the opportunities for the development of financial technology ('FinTech') and digital finance in the

72 Similarly, New Financial estimated that the banking sector "have moved or are moving more than £900bn in assets from the UK to the EU", a figure amounting to "roughly 10% of the assets in the UK banking system". Written evidence from New Financial (RFS0006).

73 Q 47

74 Q 80

75 Q 95

76 Rt Hon Rishi Sunak MP, 'Mansion House Speech 2021', (1 July 2021): https://www.gov.uk/government/speeches/mansion-house-speech-2021-rishi-sunak [accessed 8 June 2022]

77 HM Treasury, *A new chapter for financial services* (1 July 2021): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998102/CCS0521556086–001_Mansion_House_Strategy_Document_FINAL.pdf [accessed 8 June 2022]

UK; and the development of green finance through positioning the UK as the world's first Net Zero aligned financial centre.

54. In his speech, the Chancellor framed the Government's approach as applying five principles:

- "Openness: we believe in open societies and free economies founded on democratic values. Only the creativity, ingenuity and dynamism of free individuals can deliver lasting economic growth."
- "A rules-based international order: openness and freedom must be protected by rules that are followed and enforced."
- "A sovereign approach: the UK will use our new freedoms to follow a distinctive approach founded on UK law, protected by independent UK regulators, designed to strengthen UK markets."
- "Multilateral engagement: we will engage and lead in multilateral settings, helping to solve the world's most challenging problems."
- "Real change: engagement alone isn't enough; our international actions must make a tangible difference to people's lives."

55. These principles are supplemented in the accompanying policy paper by a number of policy aims for the remainder of this Parliament, summarised on the final page as being to have:

(1) "Secured best-in-class financial services agreements with new partners and deepened existing relationships, supporting stable and open markets."

(2) "Put in place the building blocks to enable financial markets to support the transition to Net Zero in the UK and across the world."

(3) "Delivered regulatory changes to harness the most innovative and cutting-edge technology in financial services."

(4) "Tailored the regulatory framework to ensure the UK is recognised internationally as one of the safest and most competitive places to locate financial services businesses and activities."[78]

56. The independent report of the Taskforce on Innovation, Growth and Regulatory Reform (TIGRR), commissioned by the Prime Minister and published on 16 June 2021, recommends a comprehensive review of the UK's regulatory framework for financial services, stating that: "the tangled web of EU-derived regulation needs a thorough overhaul … [involving] moving away from the EU's code-based system to a more principles-based approach based on common law."[79]

57. The TIGRR report also calls for the reform of the rules underpinning the provision of capital to better support the scaling up of growing companies

78 HM Treasury, *A new chapter for financial services* (1 July 2021), p 34: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998102/CCS0521556086–001_Mansion_House_Strategy_Document_FINAL.pdf [accessed 8 June 2022]

79 Prime Minister's Office, 10 Downing Street, *Taskforce on Innovation, Growth and Regulatory Reform independent report* (16 June 2021), para 17: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994125/FINAL_TIGRR_REPORT__1_.pdf [accessed 8 June 2022]

with the aim of unleashing "latent innovation across the economy". It also calls for reforms to enterprise investment schemes and reporting to "help further the UK's position."[80]

58. More recently, the Government announced in the Queen's Speech on 10 May 2022 that it will be bringing forward a new Financial Services and Markets Bill in the current parliamentary session. The Bill will include "Revoking retained EU law on financial services and replacing it with an approach to regulation that is designed for the UK."[81]

59. **We support the Government's broad policy aims for the financial services sector, as far as they go, and hope that these will be enacted in a proportionate and evidence-based way.**

60. **We ask the Government in its response to this report to set out the specific steps it has taken and is proposing to take to fulfil the ambition and promise of the aims set out in the Chancellor's 2021 Mansion House Speech and in 'A new chapter for financial services'.**

61. **Despite our broad support for the Government's policy aims, it is important that the Government ensures financial services policy is not focused too heavily on the City of London alone. We therefore ask the Government to provide a full explanation of how it intends to support those parts of the sector operating throughout the rest of the UK with respect to the UK's evolving relationship with the EU.**

80 *Ibid.*

81 HM Treasury, 'New law to protect access to cash announced in Queen's speech' (10 May 2022): https://www.gov.uk/government/news/new-law-to-protect-access-to-cash-announced-in-queens-speech [accessed 8 June 2022]

CHAPTER 2: EQUIVALENCE

Background

62. By granting equivalence decisions, the UK Government or the European Commission affirm that a foreign jurisdiction's rules and supervision in certain areas of financial services are equivalent to their own. In some cases, this allows providers of financial services from the other Party to benefit from the same market access as domestic providers.

63. Equivalence decisions are unilateral. It is therefore not in the gift of either the UK Government or the European Commission to secure or negotiate equivalence from the other Party—a point that was stressed by several of the Committee's witnesses. Dr Andromachi Georgosouli and Professor Rosa Maria Lastra, from the Centre for Commercial Law Studies at Queen Mary University of London, described equivalence as "a privilege, not a right", and stressed that, as far as EU decisions are concerned, "Third countries neither have a right to obtain equivalence status, nor indeed a right to receive a positive determination".[82] Similarly, Miles Celic of TheCityUK told us that: "Equivalence is not something that is done jointly. That is certainly not the way the EU sees it."[83]

64. Equivalence decisions can be granted or withheld for any reason, and not necessarily on the basis of purely technical criteria. Lord Hill gave the Committee his insights into EU decision-making in this area as a former European Commissioner: "I used to be responsible for [EU] equivalence decisions and I naively started off thinking there must be some kind of technical process … Then you realise very quickly, of course, that it is just a political process and the answer fits the politics."[84]

65. Because they are unilateral, equivalence was omitted from the scope of the UK-EU negotiations that culminated in the TCA. The European Commission's 'Q&A' explainer on the TCA states: "The Agreement does not include any elements pertaining to equivalence frameworks for financial services. These are unilateral decisions of each party and are not subject to negotiation … the EU will consider equivalence [decisions] when they are in the EU's interest."[85]

66. It was emphasised to the Committee that equivalence decisions vary in both nature and importance, and many do not deal with market access or cross-border trade. Both Sir Jon Cunliffe of the Bank of England and Miles Celic estimated that the majority of the available equivalence decisions in a UK-EU context did not relate to market access.[86]

67. Finally, the governance and termination procedures for equivalence decisions may also vary, particularly as far as EU decisions are concerned. Dr Georgosouli and Prof Lastra explained: "The relevant Implementing Act may grant equivalence in full or in part, on a temporary or more long-term basis or subject to certain conditions. Equivalence may be later adjusted or

82 Written evidence from Dr Andromachi Georgosouli and Prof Rosa Maria Lastra (RFS0010)
83 Q 10
84 Q 78
85 European Commission, 'Questions & Answers: EU-UK Trade and Cooperation Agreement', (24 December 2020): https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_2532 [accessed 7 June 2022]
86 Q 7 and Q 30

may be even withdrawn or terminated at a short notice."[87] Similarly, Miles Celic highlighted that "there is no single framework of equivalence. It is a patchwork, which is one of the problems with it."[88]

The state of play

UK equivalence decisions

68. UK equivalence determinations are issued by the Treasury, supported by technical advice from the regulators and the Bank of England.[89] To date, the UK has adopted a more generous approach to granting equivalence to the EU than vice versa. It has issued positive determinations for EU and European Economic Area (EEA) states in 28 of the 32 areas identified for the equivalence process.[90]

69. The UK's approach to termination of equivalence also contrasts with that of the EU: like the European Commission, the Treasury reserves the right to revoke equivalence decisions at any time, but its guidance stresses that "withdrawal of equivalence will be considered as a last resort", in light of "the importance of clarity and stability … and the negative impact that the possibility of withdrawal can have on confidence in the overall system".[91] The European Commission's July 2019 Communication on its approach to equivalence contains no such commitment.[92]

70. Sir Jon Cunliffe described the UK's approach to equivalence decisions as "open" and asserted that it would "continue to facilitate cross-border activity into and out of the UK."[93] Similarly, the Economic Secretary said that the Government had "proactively made equivalence decisions ourselves towards the EU … because we believe in openness, and we believe that London as a financial centre needs to be open to other jurisdictions".[94]

71. Representatives of trade associations from the City welcomed the Treasury's approach to equivalence, with UK Finance urging the Government to continue pursuing "a more outcomes-based approach than the EU rules-based approach".[95]

72. **We welcome the UK's open approach to granting its own equivalence decisions. We view this openness as one of the UK's great strengths in navigating its global relationships in the post-Brexit era.**

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87 Written evidence from Dr Andromachi Georgosouli and Prof Rosa Maria Lastra (RFS0010)
88 Q 9
89 Q 58 (Richard Fox)
90 HM Treasury, 'HM Treasury equivalence decisions for the EEA States' (9 November 2020): https://www.gov.uk/government/publications/hm-treasury-equivalence-decisions-for-the-eea-states-9-november-2020/hm-treasury-equivalence-decisions-for-the-eea-states-9-november-2020 and HM Treasury, 'Guidance Document for the UK's Equivalence Framework for Financial Services', (14 January 2021): https://www.gov.uk/government/publications/guidance-document-for-the-uks-equivalence-framework-for-financial-services [accessed 7 June 2022]
91 HM Treasury, *Guidance Document for the UK's Equivalence Framework for Financial Services* (November 2020): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/937799/Guidance_Document_on_the_UK_s_Equivalence_Framework_Amended.docx [accessed 7 June 2022]
92 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic And Social Committee and the Committee of the Regions on equivalence in the area of financial services, COM(2019) 349 final
93 Supplementary written evidence from Sir Jon Cunliffe (RFS0012)
94 Q 97
95 Written evidence from UK Finance (RFS0005); see also Q 1 (Miles Celic).

EU equivalence decisions

73. In contrast to the UK's approach, the EU has so far granted the UK only two equivalence decisions since the signing of the TCA, both of which were time-limited. One, which was for six months and expired on 30 June 2021, concerned central securities depositories. The other, which concerns the UK's Central Counterparties (CCPs),[96] was granted for an initial 18-month period. It was therefore due to expire on 30 June 2022 but was recently extended for a further three years until 30 June 2025.

74. In a speech to the ECB on 6 April 2022, Mairead McGuiness, European Commissioner for Financial Stability, Financial Services and Capital Markets Union, said that this extension was "really important for [EU] financial stability in the short term." She added, however, that "in the medium term, we need to build up capacity in the EU and reduce our over-dependence on UK-based CCPs … being heavily dependent on a third country for clearing is unprecedented and it is not sustainable in the medium term."[97]

75. It remains unclear, however, whether the EU will be able to build up its own CCP capacity by the expiry of the equivalence decision in June 2025. Rachel Kent of Hogan Lovells told the Committee that setting up clearing houses "is probably one of the most complex legal tasks there is. That means that any process for establishing clearing houses anywhere will take time."[98]

76. The Economic Secretary would not be drawn on whether he expected a further extension to CCP equivalence, which he characterised as a matter for the EU. He did, however, observe that "it is quite challenging … to build up that [CCP] infrastructure" because "to switch and ask people to move from one jurisdiction to another involves additional costs".[99]

77. As for other equivalence decisions, Sir Jon Cunliffe explained that the EU had initially been in the process of considering these for the UK, but that the process had since been "paused".[100]

78. As part of this consideration process, the Committee heard that the UK Government had "painstakingly" filled in numerous EU questionnaires on its domestic regime, amounting to "2,500 pages".[101] Sam Woods of the PRA said that there was "a little bit of frustration around the enormous volume of work that went into [the questionnaires] … with the very limited results".[102] The Economic Secretary said: "we have done everything that the EU has asked of us in co-operating and giving it the materials it needs to deem us

96 CCPs take on the credit risk between the parties to a transaction and provide clearing services for trades in various financial products. Since the 2007–08 financial crisis, the global financial system has become increasingly reliant on CCPs to manage the risks associated with derivatives contracts. According to evidence the Committee received from independent financial services consultant Graham Bishop, this reliance creates "potential systemic risks" and means that CCPs have become "the nuclear power station of the financial system: brilliant in success, catastrophic in failure." Written evidence from Graham Bishop (RFS0011)

97 Mairead McGuinness, Speech at the ECB/European Commission Conference on European financial integration, 'An EU financial system for the future', (22 June 2021): https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_22_2327 [accessed 7 June 2022]

98 Q 8 (Rachel Kent)

99 QQ 99–100

100 Q 30

101 Q 97 (John Glen MP)

102 Q 58

equivalent or not. What I cannot then do is force it to make a decision on that".[103]

79. At present, therefore, the UK holds just one, time-limited equivalence decision from the EU. This contrasts with the position of other jurisdictions with large financial services sectors: the Committee understands that, as of October 2021, the EU had issued 22 equivalence decisions to the US, 16 to Singapore, and 14 to Switzerland.[104]

Explaining the lack of EU equivalence decisions

80. We sought the views of witnesses on possible explanations for the lack of EU equivalence decisions to the UK. There was a broad consensus that, compared to its equivalence processes for other jurisdictions, the EU was "holding the UK to a higher standard".[105] Sir Jon Cunliffe explained: "The Commission have said that further equivalence decisions would not just consider current regulation in the UK—which largely mirrors the EU—but also future plans. This a standard that we are not aware of them holding any other country to."[106] Similarly, Miles Celic expressed the view that many of the EU's equivalence decisions with other third countries "represent a different time in regulatory dialogue between the European Union and its partners", and that the EU "now see equivalence as a process of managing future and ongoing alignment".[107]

81. We heard that this differential treatment could be partially explained by the UK's size, proximity, and the high trade volumes between the two parties. Sam Woods emphasised that, for the EU, the UK represents "a very large financial services centre right on the edge of its jurisdiction".[108] Andrew Pilgrim of EY agreed: "the European Commission does think about the UK differently from other markets … [equivalence decisions] for a jurisdiction a long way away, where it expects occasional trade, are a very different kettle of fish".[109]

82. The Committee also heard that the EU's decision-making over equivalence for the UK could be attributed to its broader push for what it calls "open strategic autonomy".[110] In the view of Dr Georgosouli and Prof Lastra:

> "The reluctance of the Commission to grant equivalence may appear at odds with the fact that almost all of the UK financial regulation stems from existing EU legal instruments but, it is fully consistent with the EU's future plans to become strategically autonomous and to increase its own international competitiveness."[111]

103 Q 97

104 The European Commission's latest published table of equivalence decisions, dated February 2021, puts these numbers at 21, 15 and 13 respectively. However, Sir Jon Cunliffe highlighted to the Committee his understanding that the Commission issued one further decision to each of these three countries in October 2021. European Commission, 'Equivalence Decisions taken by the European Commission as of 10 February 2021': https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/overview-table-equivalence-decisions_en.pdf [accessed 9 June 2022] and supplementary written evidence from Sir Jon Cunliffe (RFS0012)

105 Q58 (Sam Woods)

106 Supplementary written evidence from Sir Jon Cunliffe (RFS0012); see also Q 58 (Sam Woods).

107 Q 10

108 Q 58; see also Q 31 (Sir Jon Cunliffe).

109 Q 44

110 Q 82 (Stéphane Boujnah)

111 Written evidence from Dr Andromachi Georgosouli and Prof Rosa Maria Lastra (RFS0010)

83. More broadly, several witnesses suggested that the lack of equivalence decisions reflected political rather than purely technical considerations on the part of the EU. Miles Celic said "there was no technical reason … why the UK should not be deemed equivalent", but added, "there has always been a degree of politicisation to equivalence".[112] UK Finance stressed that "the UK rulebook is substantively closer to the EU rulebook than those of other jurisdictions".[113] Lord Hill's assessment was blunter: "They think that an equivalence decision is a plum to give, and why would you give that before you know you want to give it and in exchange for something else?"[114]

84. There have been suggestions that the EU's withholding of equivalence decisions is linked to wider disagreements between the Parties. In June 2021, Commissioner McGuinness suggested that the EU's financial services equivalence assessments regarding the UK could be resumed once the Memorandum of Understanding on UK-EU regulatory cooperation was finalised, which in turn was linked to the UK "abiding by its obligations and engaging in good faith" in other areas of the relationship (see Chapter 3).[115]

85. In this context, several witnesses said they did not expect that further equivalence decisions would be forthcoming.[116] Lord Hill told the Committee that he had not expected it since the referendum: "I spent a lot of time after 2016 saying to people in the City, 'I promise you, you are not going to get equivalence'".[117] Caroline Dawson of Clifford Chance, however, was slightly more optimistic, arguing that the lack of decisions to date was partly because "equivalence decisions take a really long time", and suggested that further decisions might be forthcoming once "the UK financial system stabilises and the EU gets more confidence that we are not going to see a complete bonfire of red tape".[118]

86. The Economic Secretary's evidence to the Committee reinforced the unilateral nature of EU equivalence decisions: "I cannot account for what the EU has decided to do with respect to us. That is a matter for it. It is obviously sovereign to make those decisions itself".[119] He also argued that the UK could not operate on the assumption that further equivalence decisions would be granted: "The question of equivalence will always be there, and we will always be open to discussing whatever the EU wants to discuss, but I am not sitting waiting for that decision."[120]

The importance of EU equivalence decisions

87. The Committee sought to ascertain the importance of equivalence determinations for the UK financial services sector. Several witnesses emphasised the benefits of equivalence; Miles Celic said receiving further decisions from the EU would be a "preferable" outcome, while Andrew

112 Q 7, Q 9; see also paragraph 64 above, per Lord Hill of Oareford.
113 Written evidence from UK Finance (RFS0005)
114 Q 78
115 Mairead McGuinness, Keynote address at CityWeek 2021: 'The EU's financial services strategy', (22 June 2021): https://ec.europa.eu/commission/commissioners/2019–2024/mcguinness/announcements/keynote-address-cityweek-2021-eus-financial-services-strategy_en [accessed 7 June 2022]; see also Q 30 (Sir Jon Cunliffe).
116 Supplementary written evidence from Sir Jon Cunliffe (RFS0012) and written evidence from New Financial (RFS0006)
117 Q 78
118 Q 44
119 Q 97
120 Q 98

Pilgrim highlighted the costs of non-equivalence for both UK firms seeking EU market access and for firms in the EU.

88. However, the overall balance of the evidence was that while further equivalence decisions might be beneficial, they were not necessarily of vital or fundamental importance. Peter Bevan of Linklaters suggested that the importance placed by the sector on equivalence had diminished over time: "It is a topic we talked a lot about a year or two ago, but perhaps it is not something we hear being called for so much these days".[121] Similarly, Sir Jon Cunliffe argued that equivalence was just one factor among many that firms take into account, and that it "perhaps gets too much attention as a key determinant of where business will move in the future".[122]

89. Peter Bevan also highlighted the fact that, for the sector, "it was always understood that you needed to prepare on the assumption that that equivalence would not be forthcoming … Firms are well prepared for the reality that they find themselves in." He added that, since firms have now adjusted to this new reality, the value of future equivalence decisions had diminished.[123] This was corroborated by the London Market Group: "Given the ongoing uncertainty over equivalence, and that it was never a perfect solution anyway … much of the London Market is moving on from that debate and looking towards the potential that domestic reform could bring."[124]

90. Another limitation to the value of EU equivalence decisions is the uncertainty around the withdrawal of equivalence once granted. Dr Georgosouli and Prof Lastra said that the EU's approach to withdrawing equivalence "entails significant risks for third-country financial firms because the legal basis for their activities might be pulled out at short notice and with little or even no warning."[125] Peter Bevan agreed that, without assurances that equivalence would not be withdrawn once granted, firms would be "building a business model and making an investment on the basis of shifting sand".[126]

91. As highlighted in paragraphs 80–81, there is evidence to suggest that the EU is holding the UK to a higher standard than it has done for other countries by including future regulation in its consideration of equivalence. In this context, some witnesses questioned whether further equivalence decisions were worth the terms on which they might be granted to the UK. Dr Gerard Lyons, of Policy Exchange and Netwealth Investments, said: "Some might say that [equivalence] is a nice to have, but regulatory independence is a must have".[127] New Financial argued that, because further equivalence decisions were unlikely, "it would be misguided to base the future regulatory strategy for the UK on any sense of maintaining access."[128]

92. It was also highlighted to us that equivalence is not relevant at all for all sub-sectors of financial services. Michael Dobson said that Schroders, and asset managers more broadly, "generally do not rely on equivalence to conduct our core business" but added that "it is a much bigger issue for

121 Q 45
122 Q 30
123 Q 45
124 Written evidence from London Market Group (RFS0009)
125 Written evidence from Dr Andromachi Georgosouli and Prof Rosa Maria Lastra (RFS0010)
126 Q 45
127 Q 7, see alsoQ 9 (Dr Gerard Lyons) Q 7 (Rachel Kent).
128 Written evidence from New Financial (RFS0006)

investment banking, commercial banking and other areas."[129] The London & International Insurance Brokers Association (LIIBA) said that the picture was similar in their sector: "the EU legislation governing our sector has no equivalence provisions. There is no mechanism therefore for [the] EU to grant further market access rights to UK insurance brokers".[130]

93. In terms of areas where equivalence decisions might be important, representatives of the Bank of England and the regulators highlighted two specific decisions: Article 25 of the European Market Infrastructure Regulation (EMIR 25), which covers the recognition of CCPs, and Article 47 of the Markets in Financial Instruments Regulation (MiFIR 47), which covers cross-border investment banking services. However, equivalence under EMIR 25 is the one decision the UK currently holds, while equivalence under MiFIR 47 was described as a particularly unlikely outcome: "the EU has not found the UK equivalent, the UK has not found the EU equivalent, and, as far as I can work out, the EU has not found any other country equivalent and is reviewing that clause."[131] Separately to these two decisions, equivalence of trading venues and reinsurance equivalence under Solvency II were also highlighted by other witnesses.[132]

94. The Economic Secretary expressed no significant concern about the absence of equivalence: "Time moves on. Increasingly, for both the EU and the UK, the further we get away from the TCA, the initial agreement and the initial decisions or lack of decisions on equivalence, the more we will naturally both develop our own regulatory regimes".[133]

The impact of the 'imbalance' in equivalence decisions between the UK and other third countries

95. As set out in paragraph 79, the EU's apparent reluctance to grant the UK equivalence decisions marks a striking contrast to its historical approach to equivalence for other jurisdictions with major financial services sectors. We therefore took a particular interest in whether this 'imbalance' in the number of equivalence decisions put the UK at a competitive disadvantage.

96. Witnesses who addressed this question conceded that there was something of a competitive disadvantage, but stressed that it was not as great as the numerical imbalance in equivalence decisions would suggest. Sam Woods argued that certain third countries did have "an advantage" over the UK, but "it is not necessarily as great as you might think".[134]

97. The reason for this is partly because, in the words of Caroline Dawson, "not all of those equivalence decisions are equal in importance". Dawson added, "just because the US has 21 equivalence decisions and the UK only one, there is not automatically some sort of imbalance in the ability to do cross border business. Clearly in practice there is, but it is not in the ratio of 21:1".[135] Sir Jon Cunliffe similarly highlighted that "of the equivalence decisions granted by the EU to the US, Singapore and Switzerland, the majority are unrelated to trade and market access", which underpinned his view that the

129 Q 82
130 Written evidence from LIIBA (RFS0001)
131 Q 58 (Sam Woods); see also supplementary written evidence from Sir Jon Cunliffe (RFS0012).
132 Q 45 (Peter Bevan) and written evidence from London Market Group (RFS0009)
133 Q 98
134 Q 58
135 Q 44

competitive disadvantage was "relatively limited" and not "of first-order importance".[136]

98. We did, however, receive evidence that for one specific equivalence decision, related to trading venues, the UK had lost out on business activity to the US as a result of the imbalance. Sir Jon Cunliffe explained:

> "EU firms in scope of the EU Derivative Trading Obligation (DTO) are no longer able to trade some classes of derivatives on UK trading venues, and UK firms in scope of the UK DTO are no longer able to trade these derivatives on EU trading venues. This has resulted in relocation of some of this trading activity to venues in the United States [which has equivalence from both the UK and the EU]".[137]

Peter Bevan also highlighted this matter, adding, "It seems extraordinary, really, that when Europeans and UK counterparties want to trade with each other, they have to go to another continent to find a venue to do so".[138]

99. The Economic Secretary dismissed suggestions that the imbalance in equivalence decisions meant there was a competitive disadvantage ("not necessarily. In fact, probably not"), but his answer provided little detail as to why this was the case.[139]

100. **We regret that the EU has opted not to grant equivalence to the UK in a number of areas where it would be beneficial to market actors in the UK and the EU. We note that the Government does not consider the lack of equivalence in these areas to pose a significant problem, despite the effort originally expended in submitting information to the EU as part of the latter's consideration of the UK's regime.**

101. **However, we recognise that further equivalence decisions are ultimately a matter for the EU. We therefore agree that it would be misguided to base the UK's future strategy for the sector on something that is not in the Government's gift and that currently seems unlikely to be forthcoming.**

102. **Contrary to the Committee's expectations at the outset of this inquiry, we recognise now that the low number of equivalence decisions is not seen within the sector as a matter of fundamental concern. The sector has successfully adapted to operating without equivalence and sees limited benefit now in making further adaptions to accommodate it. We also recognise that the EU currently seems unlikely to grant further equivalence decisions without the UK constraining its regulatory flexibility and ability to diverge.**

103. **Although the imbalance between the number of decisions the EU has granted to the UK compared to other jurisdictions is striking, the evidence we received suggested that the impact of this on UK competitiveness has been limited. We also recognise that not all equivalence decisions are equal and that most granted to other jurisdictions are unconnected to the crucial issue (as far as the UK is concerned) of market access.**

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136 Q 30; see also supplementary written evidence from Sir Jon Cunliffe (RFS0012).
137 Supplementary written evidence from Sir Jon Cunliffe (RFS0012)
138 Q 44
139 Q 98

104. **We ask the Government, in its response to this report, to set out the extent to which it believes there to be a competitive disadvantage as a result of the imbalance in equivalence decisions, and how it intends to address any such competitive disadvantage.**

105. **We also note that there is continued medium-term uncertainty. While the lack of equivalence has been less detrimental than anticipated prior to the end of the transition period, this has partly been as a result of specific business-model adaptations.**

CHAPTER 3: REGULATORY COOPERATION

Background: the UK-EU Memorandum of Understanding

106. Alongside the TCA, the UK and the EU published a Joint Declaration on Financial Services Regulatory Cooperation, in which the Parties committed to agreeing a Memorandum of Understanding (MoU) to establishing structured regulatory cooperation on financial services. The Declaration's stated aims include "establishing a durable and stable relationship between autonomous jurisdictions" on the basis of "a shared commitment to preserve financial stability, market integrity, and the protection of investors and consumers".[140]

107. The MoU would not, in itself, facilitate additional UK-EU market access. Rather, its purpose would be to provide a mechanism for high-level dialogue and cooperation, particularly between HM Treasury and the European Commission.[141]

108. Under the UK-EU Joint Declaration, the MoU was due to be agreed by March 2021. Although technical negotiations did conclude on 26 March 2021, over a year later, the MoU has still not been signed or entered into force.[142]

109. The EU Commissioner for Financial Stability, Financial Services, and the Capital Markets Union, Mairead McGuinness, has previously suggested that the non-finalisation of the MoU is related to wider disagreements between the Parties. Speaking in June 2021, Commissioner McGuinness said that "financial services are not isolated from the wider political relationship between the European Union and the United Kingdom" and added that, in a scenario where the UK was "abiding by its obligations and engaging in good faith … that will help us cooperate across sectors, including in financial services."[143] Similarly, in October 2021, she suggested that "had everything run smoothly and [if] the day-to-day trauma of Brexit was not in the headlines, this memorandum would be put into practice and we would have dialogue".[144]

110. Most of the Committee's witnesses to the inquiry similarly identified the wider UK-EU relationship, and specifically the dispute over the implementation of the Protocol on Ireland/Northern Ireland, as the key obstacle to the conclusion of the MoU. Referring to the Commissioner's previous comments, Sam Woods of the PRA said "I think [that] is code for the Northern Ireland Protocol. I am not aware of any specific problems with the MoU itself."[145]

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140 Joint Declaration on Financial Services Regulatory Cooperation between the European Union and the United Kingdom (24 December 2020): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/948105/EU-UK_Declarations_24.12.2020.pdf [accessed 7 June 2022]

141 Q 40 (Andrew Pilgrim)

142 HM Treasury, 'Technical negotiations concluded on UK–EU Memorandum of Understanding', (26 March 2021): https://www.gov.uk/government/news/technical-negotiations-concluded-on-uk-eu-memorandum-of-understanding [accessed 7 June 2022]

143 Mairead McGuinness, Keynote address at CityWeek 2021: 'The EU's financial services strategy', (22 June 2021): https://ec.europa.eu/commission/commissioners/2019–2024/mcguinness/announcements/keynote-address-cityweek-2021-eus-financial-services-strategy_en [accessed 7 June 2022]

144 'Brussels vows 'no cliff edge' over EU banks' access to UK clearing', *Financial Times* (18 October 2018): https://www.ft.com/content/aa5b2d3c-0095-4f22-bd66-29c09e24a178 [accessed 7 June 2022]

145 Q 50; see also Q 17 (Sir Jon Cunliffe).

Similarly, Miles Celic of the CityUK said he suspected that the delay was "to do with issues that are nothing to do with financial services".[146]

111. The ensuing absence of a structured mechanism for UK-EU regulatory cooperation is notable given that both parties have similar mechanisms with other partners: both the UK and the EU have forums for regulatory cooperation with the United States of America on financial services, for example.[147] Sir Jon Cunliffe of the Bank of England admitted how unusual that this state of affairs might appear: "If you came down from Mars and saw, in financial services terms, two large jurisdictions with very strong links … you would probably assume that there was some structured dialogue between them".[148]

112. The Economic Secretary emphasised that the UK was ready to implement the MoU and that the delay was on the EU side: "It was ready to go in March 2021. The EU, for whatever reason, has not been in a position so far to sign up to that … We have co-operated fully. We negotiated in good faith. We are ready to sign up".[149]

113. **The Committee regrets the fact that the UK-EU Memorandum of Understanding on regulatory cooperation is still not in place, despite technical negotiations having concluded more than a year ago. The Committee notes the widespread view that the MoU has become a casualty of wider tensions between the Parties, particularly regarding the implementation of the Protocol on Ireland/Northern Ireland.**

114. **We consider the lack of a structured mechanism for regulatory cooperation on financial services between the UK and the EU to be particularly striking given that both the UK and the EU have established structured dialogues with other partners, notably with the United States.**

115. **We consider that the Government's overall objective should remain the earliest possible entry into force of the Memorandum of Understanding and that, as and when it enters into force, the Government should make the fullest use of the dialogue established to work for effective cooperation with the EU in this important sector.**

The importance of the Memorandum of Understanding

116. There was a general consensus among the Committee's witnesses that, while full implementation of the MoU would be beneficial, its absence had not caused major practical problems so far. Richard Fox, Director of International at the FCA, said he would "broadly agree" with the characterisation of the MoU as advantageous rather than essential, adding that, as regulators, "there is no immediate impediment to us doing our jobs well".[150] Sir Jon

146 Q 11; see also written evidence from New Financial (RFS0006).

147 The UK and the US established a Financial Regulatory Working Group in 2018, which has since met on five occasions—most recently on 15 December 2021. HM Treasury, 'UK-U.S. Financial Regulatory Working Group', (17 December 2021): https://www.gov.uk/government/publications/uk-us-financial-regulatory-working-group--2.[accessed 9 June 2022] The EU and the US have a Joint Financial Regulatory Forum. European Commission, 'Regulatory dialogues with the USA on financial services regulation', (7 March 2022): https://ec.europa.eu/info/publications/financial-services-regulation-regulatory-dialogues-usa_en.[accessed 9 June 2022]

148 Q 19; see also Q 50 (Richard Fox).

149 Q 102

150 Q 18 and Q 50

Cunliffe expressed similar sentiments, stating that "its practical significance in providing access for trade is relatively small".

117. Some witnesses further argued that the sector no longer saw the MoU as a top priority. Andrew Pilgrim of EY said it had "been such a long time coming that many have now almost forgotten about it … To an extent, the world has moved on".[151] Lord Hill, former European Commissioner for Financial Services, said the MoU was "not essential because life has carried on without it", though he added, "it is the kind of thing that can help".[152]

118. In addition, some witnesses pointed to limitations with the MoU itself. New Financial wrote that its potential scope was "less ambitious than the existing agreements between the UK and US … or the EU and US".[153] Rachel Kent of Hogan Lovells also emphasised that one of the aims envisaged for the MoU had been "governance, dialogue and process around equivalence decisions", decisions which have not ultimately been forthcoming.[154]

119. Furthermore, Sir Jon Cunliffe told the Committee that the MoU "is not the only channel for raising something" with the EU, highlighting in particular that "We and the EU are both active participants in international fora".[155]

120. Nevertheless, there was general agreement that implementation of the MoU would still have strategic value as a mechanism for structured dialogue.[156] Sir Jon Cunliffe said that "having a structure for that sort of interaction and dialogue is important", adding, "We can certainly find ways to talk to [the EU], but we lack an umbrella-structured dialogue to do so, and that makes a difference at the margin."[157] Miles Celic's sentiments were similar: "it seems to be working reasonably well without that structure in place, but our sense is that it would be better to have the structure".[158] For the PRA, Sam Woods was clear: "Do we need it for day-to-day supervision? No. Would it be a good thing to have? Yes".[159]

121. Moreover, in the context of potential UK-EU divergence, there was a sense that, even if the absence of the MoU has not been keenly felt yet, its real value would come in the future. The City of London Corporation stressed this point: "strong regulatory and supervisory dialogue and cooperation will be so important as our respective regulatory regimes evolve over time".[160] The London Market Group also wrote that continued regulatory dialogue could "help to manage this process of divergence".[161]

122. The City of London Corporation also highlighted the value of the MoU as a mechanism for discussing "common challenges", such as tackling climate change and responding to the digitalisation of the economy.[162] In a similar vein, Lord Hill raised the wider question of cooperation between democracies in the context of global events such as the Russian invasion of

151 Q 40
152 Q 73
153 Written evidence from New Financial (RFS0006)
154 Q 11
155 QQ 19–21
156 Written evidence from the City of London Corporation (RFS0002)
157 Q 18, Q 20
158 Q 11
159 Q 50
160 Written evidence from the City of London Corporation (RFS0002)
161 Written evidence from London Market Group (RFS0009)
162 Written evidence from the City of London Corporation (RFS0002)

Ukraine: "what we have seen during the current crisis is that the financial system, the payment system, is part of defence and security".[163]

123. The Economic Secretary, however, was reluctant to be drawn on the value the MoU would add beyond existing ad hoc cooperation: "We have the opportunity for dialogue with various people around financial services … we have very strong relationships across the continent."[164]

124. **The Committee acknowledges that the non-implementation of the Memorandum of Understanding does not appear to have posed major practical problems to date, particularly as it is a tool for political cooperation rather than something that, in itself, facilitates market access. However, the Memorandum of Understanding would provide a useful mechanism and structure for future strategic dialogue and cooperation between the UK and the EU, and the Committee considers that its implementation would benefit both sides.**

125. **We caution the Government against complacency in this area. Despite the limited impact of the non-finalisation of the Memorandum of Understanding to date, its real value is likely to be found in the future as the UK and the EU diverge, particularly in the event of cross border financial services developments and potential future crises that may require transnational solutions.**

Bilateral and multilateral cooperation between regulators

126. Separately to the UK-EU MoU, a separate series of bilateral MoUs are in place between UK regulators and supervisors and their counterparts in the EU institutions and Member States. The FCA, for example, has agreed bilateral MoUs with the European Banking Authority and the European Securities and Markets Authority; a multilateral MoU with EU and EEA National Competent Authorities; and individual MoUs with National Competent Authorities.[165] Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, described this as "a pretty complete tapestry of MoUs", while Andrew Pilgrim said it was "a huge network of MoUs … almost a clean sweep".

127. Witnesses to this inquiry, including the regulators themselves, explained that these lower-level MoUs facilitate regulator-to-regulator dialogue on a technical level, whereas the overarching MoU would facilitate higher-level strategic discussions between the Treasury and the Commission.[166]

128. These regulator-to-regulator MoUs are in place and, according to the UK regulators, are working well. Edwin Schooling Latter said that these fora had facilitated "a lot of really important conversations with our EU counterparts about issues of common concern", including recent cooperation on sanctions against the Russian Federation following the invasion of Ukraine. Nathanaël Benjamin, Executive Director for Authorisations, Regulatory Technology, and International Supervision at the PRA added, "We almost forget that

163 Q 69
164 Q 102
165 Financial Conduct Authority, 'MoUs with European authorities in the areas of securities, investment services and asset management, insurance and pensions, and banking' (4 January 2021): https://www.fca.org.uk/news/statements/mous-european-authorities-securities-insurance-pensions-banking [accessed 7 June 2022]
166 Q 50 (Sam Woods, Richard Fox) and Q 40 (Caroline Dawson)

the MoUs are in place because we have got into a mode of interacting quite openly, regularly and constructively with our counterparts".[167]

129. Several witnesses argued that, at a technical and day-to-day level, these MoUs were of greater significance for regulators and firms than the overarching MoU between the UK and the EU. Caroline Dawson of Clifford Chance said, "From my clients' perspective, their relationships are with their direct supervisors and regulators … Those are the MoUs that probably have the most direct impact on my clients' business".[168] For the FCA, Richard Fox told the Committee that "the more important set of relationships we have is arguably with our direct counterparts doing the regulation and the supervision in the different countries across the European Union and, indeed, with the number of authorities that span the European Union."[169]

130. **The Committee welcomes the series of bilateral Memoranda of Understanding that have been agreed between UK and European regulators and supervisors at both EU-wide level and Member State level. These appear to be working well and have meant that day-to-day regulatory and supervisory cooperation has continued despite the lack of a higher-level UK-EU Memorandum of Understanding.**

Political and diplomatic cooperation

131. As well as formal structures, ad hoc UK-EU cooperation on financial services can also take place at political and diplomatic levels. During the Committee's inquiry, for example, Commissioner McGuinness met the Economic Secretary on 16 March 2022, and the Governor and Deputy Governor of the Bank of England on 29 March 2022.[170] New Financial argued that these meetings represented "encouraging steps towards 'normalisation' in these relationships".[171] In addition, the Economic Secretary also highlighted his bilateral engagements with his counterparts in Member State capitals, such as Madrid and Luxembourg.[172]

132. However, despite the Economic Secretary's recent meeting with the Commissioner, it emerged that the two have not established any regular or structured pattern of meetings. The Minister told the Committee: "I had a conversation with [the Commissioner] a couple of months ago and I am sure we will speak again. We do not have a fixed moment where we agree to speak, but it was a very professional and cordial conversation about issues of mutual interest."[173]

133. **Alongside formal regulatory cooperation, the Committee urges the Government to increase its political and diplomatic engagement on financial services both with the European Commission and with key Member State capitals.**

134. **While welcoming news of the Economic Secretary's recent meeting with the European Commissioner for Financial Services, we are**

167 Q 51
168 Q 40
169 Q 50
170 Mairead McGuinness (@McGuinnessEU), tweet on 16 March 2022: https://twitter.com/McGuinnessEU/status/1504139706606489604; and tweet on 29 March 2022: https://twitter.com/McGuinnessEU/status/1508841292247322625 [accessed 7 June 2022]
171 Written evidence from New Financial (RFS0006)
172 Q 102
173 *Ibid.*

concerned that such meetings are not taking place with the structure or regularity needed for close UK-EU cooperation. Notwithstanding the importance of establishing a more comprehensive structure for regulatory cooperation with the EU, we therefore recommend that these meetings take place at least once a year and are used as a forum for discussing regulatory cooperation and raising any issues of concern.

CHAPTER 4: REGULATORY REFORM AND DIVERGENCE

Onshoring of EU legislation

135. Until the end of the Withdrawal Agreement transition period on 31 December 2020, the rules governing the UK financial services sector were derived from EU legislation.

136. At the end of the transition period, in order to prevent systemic financial instability through regulatory uncertainty and the need for rapid and significant regulatory change, the UK converted EU legislation into UK domestic law through a process commonly termed 'onshoring'.[174]

137. As a result of the onshoring process, most of the body of UK financial services regulations remain closely aligned with EU law, at least for now. Edwin Schooling Latter of the FCA said that there had been "marginal bits of divergence" so far but that "99.5%" of the UK's framework remains aligned with the EU.[175]

138. This approach to regulation was welcomed by witnesses, who noted that onshoring successfully limited regulatory uncertainty at the point of the UK's EU exit. Peter Bevan of Linklaters, for example, noted that there "was overwhelming welcome [in the City] for the idea that the body of EU law should be retained as is at the point of departure."[176] Caroline Dawson of Clifford Chance similarly noted that "consistency initially was key. No one was keen to see the general upheaval, and on top of that … a wholesale implementation project".[177]

139. However, whilst the onshoring of EU legislation was viewed as successfully preventing significant and rapid regulatory changes at the point of the UK's departure, concerns remain that the newly onshored EU regulation, termed the inherited *acquis*, is not the most appropriate long-term regulatory regime for the UK financial services sector outside the EU.

140. Witnesses noted that, because of differences in the legislative systems of the UK and the EU, particularly given the latter's need to operate across (formerly) 28 Member States, the regulatory framework currently in operation in the UK is not clearly and appropriately separated between primary and secondary legislation. For example, Caroline Dawson described the current rulebook as "all over the place":

> "We have regulatory rules, primary legislation, secondary legislation, secondary legislation inherited from the EU and secondary legislation with the force of primary legislation, so the ability for the regulators to waive parts of their rulebook that they have traditionally been able to waive is limited".[178]

174 The Government included powers to bring forward Statutory Instruments to this end in the EU (Withdrawal) Act 2018.
175 Q 56
176 Q 41
177 *Ibid.*
178 *Ibid.*

141. The regulators themselves acknowledged the imperfections of the onshoring process. Sam Woods of the PRA described it as follows:

> "What we did in the onshoring was a necessary way to do it at speed, and it has created a viable framework that we are both operating today, but it is extremely complex and unwieldly because of the way in which the rules spread across these different parts of our rulebooks and different layers of law. That makes it difficult to update and very hard to navigate".[179]

For the FCA, Edwin Schooling Latter similarly argued that the "overarching framework works. It functions … but it is clunky because bits of it were designed for a multilateral world and a whole EU market, whereas we have a single country and a differently shaped market".[180]

Box 1: The role of the UK regulators

The Financial Conduct Authority (FCA)

The FCA is the conduct regulator for UK financial services firms.[181] According to its website, it regulates the conduct of around 51,000 businesses, prudentially supervises 49,000 firms, and sets specific standards for around 18,000 firms.[182] Firms and individuals need to be authorised or registered by the FCA in order to carry out certain activities, and once authorised they need to continue to meet FCA standards and rules. The FCA's strategic objective is to ensure relevant markets function well, and its operational objectives are to protect consumers, protect financial markets, and promote competition in consumers' interests.

The Prudential Regulatory Authority (PRA)

Prudential regulation focuses on the financial safety and stability of institutions and the broader financial system. In the UK, the PRA is part of the Bank of England, and supervises around 1,500 financial institutions including banks, building societies, credit unions, insurers, and major investment firms. The PRA, together with the Bank of England's Financial Policy Committee, focus on micro-prudential regulation (individual institutions), whereas the Bank's Prudential Regulation Committee focuses on macroprudential regulation (system-wide).

Sam Woods of the PRA characterised his organisation's role as follows: "We are interested in things such as whether [firms] have enough capital to absorb losses, whether they have liquidity for runs and whether the people running those firms are competent and know what they are doing."[183] Woods also summarised the difference between the PRA and the FCA: "We are responsible, primarily, for firms not going bust in a way that is uncomfortable. Edwin [Schooling Latter] and his colleagues are responsible for the conduct and behaviour of those firms".[184]

179 Q 52
180 *Ibid.*
181 Q 48 (Edwin Schooling Latter)
182 Financial Conduct Authority, 'About the FCA': https://www.fca.org.uk/about/the-fca [accessed 7 June 2022]
183 Q 48
184 Q 49

The relationship between the regulators

The FCA and the PRA were both established in 2013 after the Financial Services Authority (FSA) was disbanded, with its functions split between the FCA and the PRA. The two are separate entities but work together on certain issues. An MoU between the FCA and the Bank of England, including the PRA, sets out the different mandates of the two regulators. Under this MoU, the FCA is responsible for regulation of organised financial markets and the conduct of participants in relation to financial instruments and derivative contracts. The Bank is responsible for the oversight of clearing, settlement, and payment systems in support of its financial stability objective, and the PRA is responsible for the prudential supervision of many of the firms that participate in said systems.

The Future Regulatory Framework Review

142. The Government's proposals for adapting the UK's regulatory framework for financial services outside the EU are set out in the Future Regulatory Framework (FRF) review, published in November 2021.

143. The FRF forms the regulatory dimension of the plans for the financial services sector articulated in the Chancellor's July 2021 Mansion House speech and related paper, *A new chapter for financial services*. There are a number of proposals contained within the FRF but the overall aim is "to achieve an agile and coherent approach to financial services regulation in the UK, with appropriate democratic policy input to support a stable, innovative and world leading financial services sector".[185] To achieve this, the Government intends to transpose large parts of the financial services regulatory framework from legislation to the regulators' own rulebooks. The first consultation on the proposals closed in February 2021 and a second consultation closed in February 2022.

144. **Although the retention in primary legislation of key aspects of EU financial services law at the point of the UK's departure from the EU was the right decision for regulatory stability, it now means that the UK regulatory framework for financial services is complicated, unwieldy, and difficult to amend. Accordingly, the Committee welcomes the Government's Future Regulatory Framework Review.**

A competitiveness objective

145. The second consultation on the FRF set out proposals to introduce a new statutory objective for the FCA and the PRA requiring the regulators to facilitate the long-term growth and international competitiveness of the UK economy, including financial services. The consultation proposes subordinating this new objective to the primary objectives of soundness, stability and resilience of markets and financial systems. This means that regulators would have to prioritise their primary objectives in the pursuit of this 'secondary' competitiveness objective.

146. The regulators themselves welcomed the proposals to position competitiveness as a secondary rather than primary objective. For the FCA, Edwin Schooling Latter noted that "having regard to sustainable economic growth in the UK

185 HM Treasury, *Financial Services Future Regulatory Framework Phase II Consultation*, CP 305 (October 2020): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927316/141020_Final_Phase_II_Condoc_For_Publication_for_print.pdf [accessed 7 June 2022]

economy is not something new to our set of aims", adding that a secondary objective struck "an appropriate balance". He went on:

> "If the competitiveness objective were put on equal footing with consumer protection and market integrity, there would be conflicts between these … a primary competitiveness objective would pose some interesting dilemmas, and there would need to be a lot of thought about how we as regulators were expected to balance those".[186]

147. For the PRA, Sam Woods went further, arguing that a "primary objective to promote competitiveness is genuinely a bad idea". In particular, he noted how it could present challenges to ensuring that the UK was respected as a well-regulated financial services jurisdiction in international regulatory fora, with implications for the UK's influence in leading the development of international standards in those settings. He stressed:

> "we invest a huge amount up stream in international rule-making—the Financial Stability Board, the Basel Committee, the International Association of Insurance Supervisors. I am certain that, if we had a primary objective to promote, say, the international competitiveness of UK financial services firms, our authority in those fora would be quite heavily reduced."[187]

148. Michael Dobson, then of Schroders plc, articulated the contrary position, stating that a competitiveness requirement "should be a primary objective. Competitiveness is very definitely not about lower regulatory standards, and I see no conflict between looking after the interests of consumers and London being a very competitively successful global financial centre".[188] Lord Hill, former European Commissioner for Financial Services, agreed: "It seems to me that if it is the wrong objective you should not have it as an objective or you might as well make it a primary objective".[189]

149. Separately to a formal objective for competitiveness, other witnesses stressed the importance of the UK's wider regulatory culture in supporting the UK's competitiveness.[190] Innovate Finance, which represents the FinTech sector, stressed that "the new objectives will only be successfully applied if accompanied by a culture (behaviours and incentives, at all levels of the organisation) that supports them".[191]

150. The Economic Secretary confirmed that the Government's intention is to identify competitiveness as a secondary objective for the PRA and the FCA and warned that "significant dangers emerge from thinking that primary competitiveness has no adverse consequences".[192] This objective will be included in the Financial Services and Markets Bill as set out in the Queen's speech on 10 May 2022.

151. **The Committee notes that, as a result of the Future Regulatory Framework Review, the Government is considering introducing an additional, secondary 'competitiveness' objective for the Financial**

186 Q 55
187 Q 55
188 Q 87
189 Q 72
190 Q 12 (Miles Celic)
191 Written evidence from Innovate Finance (RFS0008)
192 Q 106

Conduct Authority and the Prudential Regulation Authority. However, it is equally important for the UK's overall economic competitiveness for the Government and regulators to work together to develop a broader regulatory culture that is responsive, consistent, and proportionate.

152. **We ask the Government, in its response to this report, to explain in further detail how a secondary 'competitiveness' objective would be applied by the regulators in practice and how success will be measured.**

Scrutiny and accountability of regulators

153. With respect to retained EU law,[193] the FRF sets out proposals to move regulatory requirements from statute to the regulators' rulebooks through a programme of secondary legislation. It is anticipated that this will be a time-consuming process, possibly taking several years.[194]

154. Representatives of the regulators told the Committee that the aim of the FRF was to make regulation "a more coherent process". Regarding the transposition of powers to the regulators, Sam Woods argued that "the EU method of having a lot in legislation was to make sure that all the countries in the EU do the same thing", and that this rationale no longer applied to the UK post-Brexit.[195] Sir Jon Cunliffe of the Bank of England added that there were advantages to this approach, as "regulators' rulebooks are more flexible" than primary legislation.[196]

155. Witnesses from the sector were broadly supportive of the Government's approach to the FRF. Michael Dobson said that Schroders plc "support the proposal that much of the detailed regulation should be the responsibility of the regulator rather than enshrined in legislation".[197] Caroline Dawson described the benefits of the proposal in further detail, arguing that it would be:

> "consistent with the UK's traditional approach to financial services, which is having a framework piece of legislation and then delegating powers to the regulators, with appropriate safeguards, so that the regulators, which have the day-to-day supervisory experience and the in-depth knowledge of the financial markets, are the ones writing the rules rather than taking up parliamentary time. That makes a lot of sense."[198]

156. However, a number of witnesses recognised that such an approach would require a system for ensuring that there was "adequate scrutiny and accountability" of the regulators,[199] particularly for avoiding the risks

193 European Union (Withdrawal) Act 2018, sections 2–7

194 Linklaters, 'Future regulatory framework: Treasury to reform regulation post-Brexit', (9 November 2021): https://www.linklaters.com/en/knowledge/publications/alerts-newsletters-and-guides/2021/november/09/future-regulatory-framework--treasury-to-reform-regulation-post-brexit [accessed 7 June 2022]

195 Q 52 and Q 54

196 Q 22

197 Q 41, Q 86; see also Q 42 (Peter Bevan) and written evidence from the City of London Corporation (RFS0002).

198 Q 41

199 Q 12 (Miles Celic), Q 72 (Lord Hill of Oareford) and written evidence from the City of London Corporation (RFS0002)

associated with regulatory capture.[200] Stéphane Boujnah of Euronext, for example, described a "balance between what you gain in agility and what you lose in accountability and democratic input."[201]

157. Representatives of the regulators and the Government seemed alive to scrutiny and accountability considerations. Sam Woods, for example, said that "parliamentary accountability, clear objectives, public reporting and all those sorts of things are a very important control".[202] In a similar vein, the Economic Secretary emphasised the need to "get the balance between the right of Parliament to call the regulators to account", respecting "the credibility of regulators as independent, very professional and well-respected entities", and "the freedom to move nimbly to deal quickly with some of the changes that emerge".[203]

158. Witnesses also cautioned that greater responsibilities would require regulators to have sufficient staff and resources and to undertake the additional work involved. Andrew Pilgrim of EY noted that "we have excellent regulators but they also risk being short on resources".[204]

159. Sam Woods told the Committee that, currently, the PRA had a "budgeted headcount … of 1,340 FTEs"[205] and that this "is enough to do the job". He went on to comment, however, that: "We do, though, need to staff up if Parliament approves this proposal to give us a bigger rule-making responsibility … we are in a very challenging environment from a recruitment and retention point of view".[206] Edwin Schooling Latter added that the FCA faced similar challenges.[207]

160. **The Committee agrees with the Government that, in the interests of flexibility, agility and proportionality, many of the regulations currently contained within primary legislation would be more appropriately managed by the regulators themselves. However, it is essential that this transfer of powers is accompanied by appropriate mechanisms for Parliament to scrutinise the regulators and hold them to account, and that the regulators are given sufficient resources to allow them to accommodate the increase in their workloads resulting from such a change.**

161. **The details of parliamentary scrutiny and accountability of the regulators are a matter for Parliament, but we ask the Government to commit to facilitating the establishment of appropriate mechanisms as necessary.**

Regulatory alignment and divergence

162. Beyond the general regulatory framework set out in the FRF, the Government has launched a number of reviews and consultations that seek to develop the regulation of the UK's financial services in ways that support the Chancellor's *New chapter for financial services* (see Table 1).

200 The process by which regulators are dominated by, or become subservient to the interests, of the entities they are charged with overseeing.
201 Q 86
202 Q 57
203 Q 103
204 Q 42
205 Full time equivalent.
206 Q 57
207 *Ibid.*

Table 1: Status of selected UK financial services regulatory reforms, May 2022

Regulatory Review	Status	Implementation
Future Regulatory Framework Review[208]	Consultation on proposals closed February 2022.	Government analysis of the consultation is ongoing.
UK Wholesale Markets Review[209]	Treasury responded to consultation in March 2022.	A number of changes scheduled 'when parliamentary time allows'.
Solvency II Review[210]	Call for evidence concluded.	Ongoing—a comprehensive reform package opened for consultation in April 2022. Reforms will be included in the forthcoming Financial Services and Markets Bill.
Review of Overseas Framework[211]	Consultation concluded. Response published July 2021.	Further consultation expected and assessment ongoing.
UK regulatory approach to crypto assets and stablecoins[212]	Consultation concluded March 2021. Response published April 2022.	Further specific consultation expected alongside legislation to bring specific stablecoins within the payments framework.
Fintech Strategic Review (Kalifa Review)[213]	Review published February 2021.	Partially implemented to date.

208 HM Treasury, 'Future Regulatory Framework (FRF) Review: Proposals for Reform', (9 November 2021): https://www.gov.uk/government/consultations/future-regulatory-framework-frf-review-proposals-for-reform [accessed 15 June 2022]
209 HM Treasury, 'UK Wholesale Markets Review: a consultation', (1 March 2022): https://www.gov.uk/government/consultations/uk-wholesale-markets-review-a-consultation [accessed 15 June 2022]
210 HM Treasury, 'Solvency II Review: Consultation', (28 April 2022): https://www.gov.uk/government/consultations/solvency-ii-review-consultation [accessed 15 June 2022]
211 Written Ministerial Statement HCWS490, Session 2021–22
212 HM Treasury, 'UK regulatory approach to cryptoassets and stablecoins: consultation and call for evidence', (4 April 2022): https://www.gov.uk/government/consultations/uk-regulatory-approach-to-cryptoassets-and-stablecoins-consultation-and-call-for-evidence [accessed 15 June 2022]. Stablecoins are cryptocurrencies, the value of which is pegged to that of another currency, commodity or financial instrument: Investopedia, 'Stablecoin': https://www.investopedia.com/terms/s/stablecoin.asp [accessed 7 June 2022]
213 HM Treasury, 'The Kalifa Review of UK FinTech', (16 April 2021): https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech [accessed 15 June 2022]

Regulatory Review	Status	Implementation
Review of UK Funds regime[214]	Summary of responses published February 2022.	Further consultation and specialized reviews required.
UK Listings Review[215]	Concluded, government response updated April 2021.	Ongoing. Implementation is split between the FCA and HM Treasury.
Payments Landscape Review[216]	Consultation concluded. Response published October 2021.	Ongoing.
Implementation of the Investment Firms Prudential Regime and Basel 3 Standards[217]	Consultation concluded April 2021.	Ongoing.
UK prospectus regime consultation[218]	Outcome published March 2022.	Legislation expected when parliamentary time allows.

Planned UK regulatory reforms

The Listings Review

163. In a statement to the House of Commons on 9 November 2020, the Chancellor of the Exchequer, Rt Hon Rishi Sunak MP, announced that he would be "setting up a taskforce to make recommendations early next year on our future listings regime" in order to "boost the number of new companies that want to list here in the UK". [219] This review was chaired by Lord Hill.

164. The independent report of this review was published in March 2021. It made 14 recommendations for reforming the UK's listing regime. These aim to make the UK more attractive for companies planning to list shares to raise capital, particularly technology and life science companies.

214 HM Treasury, 'Review of the UK funds regime: a call for input', (10 February 2022): https://www.gov.uk/government/publications/review-of-the-uk-funds-regime-a-call-for-input [accessed 15 June 2022]
215 HM Treasury, 'UK Listings Review', (21 April 2021): https://www.gov.uk/government/publications/uk-listings-review [accessed 15 June 2022]
216 HM Treasury, 'Payments Landscape Review', (11 October 2021): https://www.gov.uk/government/consultations/payments-landscape-review-call-for-evidence [accessed 15 June 2022]
217 Financial Conduct Authority, 'Implementation of the Investment Firms Prudential Regime', (26 July 2021): https://www.fca.org.uk/publications/policy-statements/ps21-9-implementation-investment-firms-prudential-regime [accessed 15 June 2022]
218 HM Treasury, 'UK Prospectus Regime: a consultation', (1 March 2022): https://www.gov.uk/government/consultations/uk-prospectus-regime-a-consultation [accessed 15 June 2022]
219 Listing refers to company shares being on the list of stock that are officially traded on a stock exchange (such as the London Stock Exchange). Some stock exchanges allow shares of a foreign company to be listed (known as dual listing). Listing is regulated in the UK by the UK Listing Authority.

165. Lord Hill emphasised to the Committee that many of the recommendations made in the Listings Review were "rules that we could have chosen to change at any time we wanted to, in or out of the EU, and we had not".[220] He also said that the concerns over the competitiveness of the UK's listing regime which had triggered the review were only partly related to the UK's departure from the EU: "I do not think that you can say it has zero effect, but when during the review I was talking to founders [of companies] no one said, 'I have been put off [the UK] because of Brexit'."[221]

166. The Review includes a recommendation that the Chancellor present an annual 'State of the City' report to Parliament. The Chancellor has agreed to deliver the first of these in 2022.[222] In evidence, Lord Hill said that this should:

> "put some scaffolding in place whereby the Government and the City and the regulators, all in one place, would have to ask themselves once a year, 'How have we done?', 'Have the changes we have made over the last year worked?', 'What has worked?', 'What has not worked?', 'What can we do better?', to try to keep the feet of government and regulators to the fire."[223]

167. **The Committee recognises the need for continued scrutiny of ongoing and future developments that might affect the sector. In this regard, we welcome the Chancellor of the Exchequer's commitment to make an annual 'State of the City' report to Parliament, as proposed by Lord Hill in the UK Listings Review.**

168. **The Chancellor has committed to presenting the first of these 'State of the City' reports this year, but it is unclear when this will be; the Government should provide clarity on this. We recommend that this report includes for at least the next five years a section dealing expressly with the UK-EU relationship in financial services.**

Wholesale Markets Review

169. In line with the wider *New chapter for financial services*, HM Treasury launched a review for consultation of the UK wholesale markets regime in July 2021, which closed in September 2021.[224] The proposals are wide ranging and cover issues such as the derivatives trading obligation, which determines where derivatives can be traded, and the production of market data. They also clarify what is and is not included within the scope of FCA regulation.

170. In November 2021, at a speech to UK Finance, the Economic Secretary emphasised the Government's intention to legislate as soon as possible for changes arising from the consultation, to make changes to the transparency regime for fixed income and derivatives markets to "remove unnecessary burdens for firms", and in line with the UK Listings Review, to introduce a

220 Q 68

221 Q 70

222 HM Treasury, 'UK Listings Review: Government response', (21 April 2021): https://www.gov.uk/government/publications/uk-listings-review/uk-listings-review-government-response [accessed 7 June 2022]

223 Q 65

224 HM Treasury, *UK Wholesale Markets Review: Consultation* (July 2021): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998165/WMR_condoc_FINAL_OFFICIAL_SENSITIVE_.pdf [accessed 7 June 2022]

"simpler, more agile and more effective" approach to listings with the aim of making it easier for firms of all sizes to raise capital.[225]

171. The Wholesale Markets Review was widely welcomed by witnesses. For example, Sir Jon Cunliffe noted that "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".[226]

Solvency II Review

172. The Government is also currently running a consultation as part of its review of the Solvency II regime, which governs the prudential regulation of insurance firms in the UK. It was highlighted to the Committee that the EU is also reviewing its own legislation in this area, creating a potential point of divergence.[227]

173. The Government recently announced that the forthcoming Financial Services and Markets Bill will include an overhaul of the Solvency II regime. In his evidence, the Economic Secretary described these reforms as "massively important".[228]

174. **The Committee welcomes the launch of a series of reviews into the regulatory framework governing financial services that the UK inherited from the EU. The Committee is concerned, however, that progress on some of these reviews appears to have stalled.**

175. **The Committee asks for an update on the progress of the various reviews into the regulation of financial services in the Government's response to this report.**

Further UK-driven divergence

176. In its written evidence to the inquiry, New Financial saw divergence between the UK and the EU as taking "several forms", as follows:

- Passive divergence: the gradual cumulative effect of both the UK and EU making minor changes to their existing rulebooks.
- Accidental divergence: by moving at different speeds in reviewing and reforming their frameworks, one side may reform before the other, causing a period of divergence.
- Parallel divergence: the UK and EU are reviewing many of the same areas of regulation (such as Solvency II for insurance, Basel 3 for banking, and MiFID II for markets). In most cases, both sides are likely to diagnose the same problems, but differ in the solutions they enact.
- Active divergence: In the past few years, the UK government has launched a wide-ranging series of reviews into different aspects of the supervisory and regulatory framework that the UK inherited from the

225 John Glen MP, 'Speech to the UK Finance Annual Dinner', (24 November 2021): https://www.gov.uk/government/speeches/speech-by-john-glen-mp-economic-secretary-to-the-treasury-to-the-uk-finance-annual-dinner [accessed 7 June 2022]
226 Q 22
227 Q 13 (Miles Celic) and written evidence from The London Market Group (RFS0009)
228 Q 107

EU, with the conscious aim of taking a different approach to that of the EU in various areas.[229]

177. There was general agreement that, in the absence of widespread equivalence decisions, and as regulatory rulebooks were updated by both the UK and the EU in the future, a degree of regulatory divergence was inevitable.[230]

178. Both the regulators and the Government, however, were keen to emphasise that divergence and reform on the UK side did not mean lower standards. For the FCA, Edwin Schooling Latter stressed that "we are talking about evolution rather than revolution of the rulebooks and still achieving the same outcomes in terms of consumer protection and market integrity".[231] For the Government, the Economic Secretary said he had "never sought to describe the UK's financial services policy as one that would be based on deregulation, a race to the bottom or somehow trying to secure competitive advantage by removing regulations."[232]

179. The Committee did not hear significant support for maintaining close regulatory alignment with the EU. Caroline Dawson, for example, said: "As we have gone further forward and realised that equivalence is not going to be given … the benefits of remaining aligned seem less and less."[233] Sir Jon Cunliffe stressed that for financial stability reasons, the Bank of England would not "make it an objective to line up our regulation with another jurisdiction", be that the EU or another third party.[234]

180. There was also general positivity about the potential opportunities that divergence from the EU might bring, particularly in allowing the UK to tailor regulation to its own needs and innovate at speed. Peter Bevan summarised this: "The ability to not have to compromise with 27 other Member States but to target regulation specifically to our own needs, and to do it faster than might be possible within EU frameworks, is something that we need to capitalise on."[235]

181. However, witnesses also tended to agree that divergence needed to be considered and managed carefully. Michael Dobson's comments were typical: "divergence between the EU and the UK is inevitable, but in our view it is important that it happens knowingly rather than by accident and that we avoid a change for change's sake approach".[236] For the PRA, Sam Woods sought to reassure: "we will not diverge just for the sake of it. We will just do it where it is necessary".[237] The Economic Secretary was also emphatic on this point: "I have never wanted to diverge for the sake of doing something differently".[238]

182. Witnesses were clear that updating the UK's regulatory framework needed to be done in a considered manner in order to avoid additional cost and uncertainty for businesses through a prolonged process of piecemeal

229 Written evidence from New Financial (RFS0006)
230 Q 25 (Sir Jon Cunliffe); Q 89 (Stéphane Boujnah) and written evidence from the London Market Group (RFS0009)
231 Q 53; see also Q 57 (Sam Woods).
232 Q 97 (John Glen MP)
233 Q 43
234 Q 24
235 Q 38
236 Q 83 (Michael Dobson); see also Q 41 (Andrew Pilgrim).
237 Q 56
238 Q 108

regulatory reform. As Caroline Dawson noted, "you have to be very careful about how you make these changes. You do not want, essentially, a constant implementation project for the entirety of the financial sector". She added that "implementation projects are expensive, so, whatever changes the Government make, you need to balance that consideration of the benefit that the change is going to bring versus the cost of implementation."[239]

183. The Committee also heard that, although some of the regulations within the inherited *acquis* are not popular within the sector, firms have already borne the cost of adapting to them, meaning that further changes at this stage could lead to additional costs. Caroline Dawson noted that there were "a lot of things that people found objectionable about Solvency II but, once the industry has gone through the process of implementation, the answer is not necessarily to say, 'It's fine, we can scrap the lot of it.'"[240] Michael Dobson made a similar point with regard to the EU's Alternative Investment Fund Managers Directive (AIFMD): "We have suffered the cost of implementing that, and undoing it now would cost more, for little benefit".[241]

184. Citing a further piece of EU legislation, the Markets in Financial Instruments Directive (MiFID), the Economic Secretary suggested that he sympathised with concerns over implementation costs: "a lot of people did not like MiFID or how it ended up, but a lot of those people then had to implement it".[242]

185. Some witnesses also warned that the impact of divergence on trade needed to be considered carefully. Caroline Dawson said: "Where you end up with divergence being a problem is where you cannot easily comply with one set of regulations … If you have duplicative or conflicting regulation, that presents a barrier to and increased costs for cross-border business". Peter Bevan added that additional complexity in cross-border business "stifles innovation", and that therefore "introducing additional complexity through divergence between the UK and the EU is something that we should consider in a targeted way".

186. This is not to say, however, that there is an automatic relationship between alignment/divergence and barriers to trade when it comes to financial services. New Financial argued that "the trade-off between access and divergence …. is a false dichotomy".[243] Sir Jon Cunliffe pointed out that the UK "manages to have more financial services trade with the US than with the EU—marginally more—without any regulatory alignment at all".[244]

187. **Diverging from EU law may present opportunities for the UK's financial services sector, and the Committee notes the sector's positivity about pursuing these opportunities. Much of the inherited acquis was designed to cater to 28 countries, and Brexit provides an opportunity for the UK to innovate and to tailor the regulation of its financial services sector to reflect the UK's own interests.**

188. **It is nonetheless vital that the Government balances the benefits of reform against the cost of implementing new rules, and that the sector is not now subject to a constant process of piecemeal change. Some**

239 Q 42
240 *Ibid.*
241 Q 85
242 Q 108
243 Written evidence from New Financial (RFS0006)
244 Q 25

pieces of EU regulation were unpopular with businesses when they were implemented but are now regarded by the sector as a sunk cost, further reform of which would impose an additional, unnecessary cost burden on the sector.

EU-driven divergence

189. The Committee also took evidence on the EU's own plans for reforms to its regulation of the financial services sector. In some areas, these reforms reflect developments in the UK. As Stéphane Boujnah noted, "there are similar debates on the other side of the channel and in the Republic of Ireland".

190. However, the EU's own reviews are underpinned by its aim of wider 'open strategic autonomy', particularly in relation to the development of its capital markets, where it still relies on access to the market liquidity of London. Stéphane Boujnah noted that "we are now focusing on building the capital markets union and building strategic autonomy in competing against US-based institutions".[245]

191. Stéphane Boujnah also noted that the UK's exit from EU discussions and decision-making had changed the EU's approach to the regulation of financial services:

> "the fact that the UK is no longer round the table changes a lot when it comes to financial regulation … the main difference between the pre-Brexit world and the post-Brexit world is that, in the pre-Brexit world, having London as the largest financial centre of the European Union was something like natural specialisation, and it was okay. Post-Brexit, Europe has to make sure that, within the European Union, there is full architecture, from a regulatory and an operating point of view, to allow for a situation where Europeans have some form of control over key pillars of the finance of EU economies … That is what open strategic autonomy is all about when it comes to financial services".[246]

192. Witnesses viewed this focus on strategic autonomy, and the emphasis on ensuring key elements of financial services infrastructure are located within the EU, as differing from the UK's post-Brexit approach of developing an internationally open financial services sector. Some were worried that the EU's approach could have adverse consequences; for example, Miles Celic of TheCityUK said he was "concerned that in the EU it is more about protectionism".[247] Sir Jon Cunliffe argued: "If the whole world pursued strategic autonomy in financial services, we would lose a lot of the benefit of a global integrated financial system".

193. Witnesses also warned that, as a result of Brexit, the UK's ability to influence the future direction of EU regulation was diminished.[248] Caroline Dawson said that the UK had "lost a huge amount from not being able to influence that debate" in the EU, explaining:

> "In terms of advocacy, it is a much more persuasive argument, if you are within the EU, to say, 'We should be open to the outside world', than being right on its doorstep and saying, 'You should be open to the

245 Q 88
246 Q 89
247 Q 14; see also Q 39 (Peter Bevan).
248 Written evidence from New Financial (RFS0006)

outside world'. Clearly, it is a very different argument. In terms of cross-border business, that is clearly a lost opportunity for influence."[249]

194. The Committee asked the Economic Secretary about the impact of future EU regulatory changes on the UK, and whether the Government was taking any steps to influence the EU's regulatory process in areas of concern, as other third countries do. The Economic Secretary seemed dismissive of the idea that the UK would seek to influence EU regulation, telling the Committee that he was "not the Financial Services Minister for the EU" and that, while he had had "pretty thorough engagement" with his EU counterparts, "we have left the EU … we are not part of the decision-making process of evolving EU directives."[250]

195. **UK-EU divergence will also be driven by future regulatory changes on the part of the EU. The Committee notes the contrast between the UK's approach of an internationally open financial services sector and the EU's prioritisation of control and market location as part of its drive for 'open strategic autonomy' and is concerned that the latter could lead to increased barriers to cross-border trade in financial services.**

196. **After the UK's exit from the EU, it was inevitable that the UK would lose the ability as a Member State to influence the EU's legislative processes directly. Nevertheless, the Committee is concerned by the Government's apparent unwillingness to use its wider influence and diplomatic resources in order to engage with the EU and its institutions to further the UK's interests, as other third countries do.**

197. **The Committee asks the Government to clarify its approach to engaging politically and diplomatically with the EU and its institutions to support and advance the interests of the UK's financial services sector in the EU's legislative decision-making processes.**

International standards

198. Witnesses broadly agreed that the UK should pursue international dialogues and cooperation in order to shape international regulatory standards in ways that would best support UK financial services.[251] This was noted in relation to the competitiveness objective for UK regulators discussed above, but also with respect to the importance of UK regulators being able to shape international standards.

199. Edwin Schooling Latter predicted that, "if you take a multidecade view of this and a longer perspective, because of all the work that we are doing along with others on convergence internationally … you are seeing convergence rather than divergence across jurisdictions."[252] Michael Dobson expressed his organisation's support for this approach: "We are strongly in favour of more global convergence and we are pleased to see the commitment of the UK authorities towards leading global cooperation and standard setting."[253]

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249 Q 38
250 QQ 110–111
251 See for example Q 89 (Michael Dobson) and written evidence from London Market Group (RFS0009).
252 Q 56
253 Q 89; see also written evidence from London Market Group (RFS0009).

200. **Notwithstanding the inevitability of UK-EU divergence on the details of financial services regulation, and the opportunities this is likely to afford the UK's financial services sector, in the long-term, the Committee considers that there is a strong case for pursuing global convergence on the principles and outcomes of the regulation of financial services.**

Data adequacy

201. As part of its examination of the impact of potential regulatory divergence on the financial services sector, the Committee's inquiry examined the future of the current UK-EU data adequacy arrangements (explained in Box 2 below), in the context of the Government's plans for reform of its data protection regime, and the impact thereof on the UK financial services sector.

202. The Government has indicated that it sees diverging from inherited EU data protection laws as one of the opportunities of Brexit. The Government's 'Benefits of Brexit' report, published on 31 January 2022, set out its intention to establish a "new pro-growth data regime" which would "help to drive growth, innovation and competition across the country".[254] In the Queen's Speech on 10 May 2022, the Government announced that it would be bringing forward a Data Reform Bill, which will "take advantage of the benefits of Brexit to create a world class data rights regime that will allow us to create a new pro-growth and trusted UK data protection framework".[255]

Box 2: Data adequacy explained

Personal data transfers from the EU to third countries, such as the UK, are governed by the 2016 General Data Protection Regulation (GDPR). Under GDPR, the EU Commission may unilaterally grant an 'adequacy' decision confirming that a third country provides a comparable level of data protection to that in EU law. This allows cross-border transfers of personal data from the EU to the third country without additional safeguards.[256]

The EU did not immediately grant the UK data adequacy following the end of the transition period, but the TCA contained a temporary bridging mechanism allowing for the continued free flow of personal data from the EU to the UK, conditional on the UK maintaining its existing levels of data protection and for a period of up to six months.[257]

254 Cabinet Office, *The benefits of Brexit: how the UK is taking advantage of leaving the EU* (31 January 2022): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1054643/benefits-of-brexit.pdf [accessed 7 June 2022]

255 Prime Minister's Office, 10 Downing Street, *Queen's Speech 2022* (10 May 2022): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1074113/Lobby_Pack_10_May_2022.pdf [accessed 7 June 2022]

256 European Commission, 'Adequacy Decisions': https://ec.europa.eu/info/law/law-topic/data-protection/international-dimension-data-protection/adequacy-decisions_en [accessed 7 June 2022]

257 Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one Part, and the United Kingdom of Great Britain and Northern Ireland, of the other Part, Article 782, OJ L 149, 30 April 2021

On 28 June 2021, the European Commission adopted two data adequacy decisions, replacing the bridging mechanism in the TCA and allowing transfers of personal data from the EU to the UK to continue on a more long-term basis. One decision addressed data sharing on the basis of the EU's General Data Protection Regulation, the other via the EU Directive on the transfer of data for the purposes of law enforcement.[258]

These adequacy decisions can, however, be withdrawn at any time—a credible scenario, given the recent case law of the Court of Justice of the European Union (CJEU) on data privacy matters.[259] The adequacy decisions also automatically expire after four years, with any renewal contingent on whether the EU still deems the UK to have an adequate system of data protection in place. In his evidence to the Committee, the Economic Secretary described the adequacy arrangements as "strong" but acknowledged that they were "not an enduring, permanent recognition".[260]

EU data adequacy decisions cover personal data transfers from the EU to the UK. Transfers in the other direction—from the UK to the EU—are not affected by this process. The UK Government has already implemented provisions permitting the transfer of personal data from the UK to the EEA.[261]

203. The UK-EU data adequacy arrangements are important for services providers involved in cross-border transfers of personal data, including some in the financial sector—particularly those in retail businesses who are involved in the handling of their customers' data. In evidence to the former EU Services Sub-Committee's report, *Beyond Brexit: Trade in Services*, Nick Collier of the City of London Corporation stressed that "financial services do not work without personal data, particularly in banking and insurance".[262] In this Committee's inquiry, both Andrew Pilgrim and Miles Celic also emphasised the importance of data to the sector; the latter told the Committee that, for TheCityUK, "data is increasingly as important for our members as capital, if not more so".[263]

204. It is important to note, however, that many UK and EU financial service providers do not handle personal data and/or do not transfer it across borders. They would, therefore, not be affected by the loss of adequacy. For Schroders, Michael Dobson told the Committee: "we do not hold personal data for the underlying investors in our funds and we do not process it on a cross-border basis so in, our view, that [loss of adequacy] would not be a problem for us". Similarly, Stéphane Boujnah said: "There is no issue for

258 European Commission, Data protection: Commission adopts adequacy decisions for the UK (28 June 2021) https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_21_3183/IP_21_3183_EN.pdf [accessed 8 June 2022]

259 The former EU Services Sub-Committee's report highlighted in particular the impact of the 2020 'Schrems II' decision of the Court of Justice of the European Union (CJEU), which struck down the EU-US data arrangements known as Privacy Shield. *Beyond Brexit: trade in services* (23rd Report, Session 2019–21, HL Paper 248), paragraph 170.

260 Q 114

261 Information Commissioner's Office, 'International transfers after the UK exit from the EU implementation period': https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/international-transfers-after-uk-exit/ [accessed 7 June 2022]

262 Oral evidence taken before the EU Services Sub-Committee, inquiry on the future UK-EU relations: trade in services, 14 January 2021 (Session 2019–21) Q 9

263 Q 13; see also Q 43.

Euronext as we do not transfer personal data related to market operations from the EU to the UK."[264]

205. The withdrawal or non-renewal of data adequacy would not prevent EU-UK personal data transfers entirely, but firms would have to rely on alternative legal safeguards, particularly Standard Contractual Clauses (SCCs). Sam Woods highlighted that through SCCs, firms would still "be able to move data back and forth across borders in a GDPR-compliant way".[265]

206. However, the former EU Services Sub-Committee previously found that these provisions make personal data transfers more "cumbersome and unwieldy" than under adequacy arrangements, and this was further corroborated during this Committee's inquiry.[266] Sir Jon Cunliffe warned that these fallbacks would not "provide the degree of frictionless passing of data that adequacy provides", and concluded that as a result, data adequacy "might not be life or death, but … it would be important if it was not there".[267]

207. In the run-up to the end of the transition period, the UK had yet to receive an adequacy decision. The Government and regulators therefore put plans in place for a 'no adequacy' scenario in which firms would need to rely on methods such as SCCs to transfer personal data from the EU to the UK. Sam Woods said that, were adequacy now to be withdrawn, "we would go back to that plan B and reactivate it", adding, "that would work, but it would be undesirable".[268]

208. The Economic Secretary told the Committee that "large UK [financial services] firms are well advanced in mitigating non-adequacy".[269] However, Sam Woods highlighted potential difficulties in ensuring EU businesses were prepared for such a scenario: "we can get the UK firms into shape, which is what we were doing before Brexit. Whether the EU firms would get into shape would rely on our fellow regulators and those EU firms."[270]

209. The extent to which the Government is prioritising the retention of adequacy arrangements as it diverges from the EU data protection framework is unclear. In comments reported by POLITICO Europe on 21 April 2022, Chris Philp MP, Minister for Tech and the Digital Economy, said: "We intend to design our changes such that there is no reasonable technical basis on which the data adequacy decision could be revoked".[271]

210. The Economic Secretary's evidence to this Committee, however, was more equivocal, saying that the UK would "take decisions in due course on an ongoing basis that will reflect what is right for the UK interest"—though he did stress that the Government would not "wilfully deviate or complicate our situation for the sake of it".[272] For the FCA, Edwin Schooling Latter said he "would hope that the costs in the financial sector would be taken into

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264 Q 92
265 Q 60
266 European Union Committee, *Beyond Brexit: Trade in services* (23rd Report, Session 2019–21, HL Paper 248) p 40
267 Q 35
268 Q 60
269 Q 114
270 Q 60
271 'UK minister: Britain wants to keep EU data pact', *Politico Pro* (21 April 2022) https://pro.politico.eu/news/148969 [accessed 8 June 2022]
272 Q 114

account in the wider assessment of costs and benefits if a decision was made to move in that direction."[273]

211. **In terms of data flows between the UK and the EU, the Committee recognises the possibility that the Government's plans for reform of the UK's data protection rules could lead to the withdrawal or non-renewal of the EU's data adequacy decision for the UK. This could have consequences for a range of service providers engaged in cross-border personal data transfers, including for some financial services providers, primarily those handling retail business.**

212. **The Economic Secretary told this inquiry that the decisions the Government will take on the UK's future data protection regime will "reflect what is right for the UK interest". In the Committee's view, it is in the UK's interest that it continues to benefit from the EU's positive data adequacy assessment.**

213. **While the future of these adequacy decisions is ultimately a matter for the EU, the Committee urges the Government to ensure that it carefully considers the implications of losing data adequacy, including for the financial services sector, into its future changes to the UK's domestic data protection framework, particularly under the forthcoming Data Reform Bill.**

273 Q 60

CHAPTER 5: OPPORTUNITIES

214. The financial services sector is, by necessity, strongly regulated and, as described in the preceding chapters, there is much work to be done to adapt the regulation of the financial services sector now that the UK is outside of the EU. However, there are a number of new and novel areas of the sector for which there is little, if any regulation yet in place. These areas include financial technology (commonly known as 'FinTech'), green finance, and crypto and digital currencies.

215. For these areas, the Committee heard that there is the potential for the development of a supportive and agile regulatory and trading environment that could allow the UK to take the lead, both in terms of attracting these industries to establish themselves in the UK and in shaping and influencing global regulatory frameworks.[274]

216. Most witnesses appeared to support the notion that, in these areas, the UK should seek to obtain first-mover advantage in terms of developing and shaping the future regulation of these industries[275]. Former European Commissioner Lord Hill, for example, said the UK had the chance to "set global regulatory standards" in "areas that have not yet been regulated".[276] However, Michael Dobson, then of Schroders plc, took a more cautious approach: "The more important thing is to co-operate with regulators in the EU or elsewhere so that it is done in lockstep … I do not see it so much as taking a lead as working with partners to try to ensure that we have the best new regulatory rules."[277]

FinTech

217. FinTech refers to a range of technologies, including software and mobile applications, that may either automate and improve traditional financial business, or seek to underpin the development of new business models to compete with or replace more traditional businesses.

218. FinTech is a major growth industry in the UK. According to evidence the Committee received from Innovate Finance, $11.6 billion was invested into UK FinTech companies in 2021—up from $929 million in 2014. This growth has been powered by "new technologies such as cloud computing, blockchain and artificial intelligence, together with a greater consumer use of digital platforms for engaging with financial services and shopping (ecommerce)". Innovate Finance additionally highlighted that, in terms of capital investment into its FinTech sector, the UK was second only to the US in 2021 and well ahead of other European countries.[278]

219. The Government commissioned an independent review into the UK FinTech sector from Ron Kalifa OBE, which reported on 26 February 2021. The Kalifa Review made 17 recommendations in the areas of policy and regulation, skills and talent, investment, international attractiveness and competitiveness, and national connectivity with the aim of enhancing the

274 See Q 74 (Lord Hill of Oareford), Q 38 (Caroline Dawson), Q 7 (Miles Celic) and written evidence from Innovate Finance (RFS0008).
275 See, for example, Q 53 (Richard Fox).
276 Q 74
277 Q 90
278 Written evidence from Innovate Finance (RFS0008)

UK's FinTech industry.[279] £5 million was allocated in the spending review for the establishment of a new Centre for Finance, Innovation and Technology to leverage expertise from across the regions to support this aim.[280]

220. In an effort to support the development of new financial technologies, the FCA has introduced a so-called "Regulatory Sandbox" to enable innovators to test their products in a controlled, professionally supported environment. This allows entrepreneurs to investigate the success or otherwise of their business models in the market and identify consumer protection mechanisms without having to overcome the very high costs of entry for those seeking full regulatory approval. This approach was endorsed in the Kalifa Review and also found favour among many of those giving evidence to this inquiry,[281] with Innovate Finance stating that the "success of the regulatory 'sandbox' was such that it has now been replicated by nearly 50 other jurisdictions around the world."[282]

221. Looking at the UK's FinTech sector as a whole, Andrew Pilgrim of EY was clear that the UK was well-placed to take a leading role globally, stating that:

> "the UK is incredibly well placed, given some of the technology companies here but also the associated financial, legal and other related service companies that sit around that ecosystem. Many of the international benchmarks put the UK in a fundamentally good place in that regard, and we have to champion that."[283]

222. Speaking for the Government, the Economic Secretary appeared to support the recommendations of the Kalifa Review for the establishment of "a centre for FinTech innovation and technology … expressly designed to try to propagate the FinTech opportunities across the UK".[284] In terms of the development of the future regulatory framework, he appeared to endorse a less internationally focused approach:

> "For some areas I will look at what is going on internationally, but [FinTech] is an area where we have to use sandboxes and to work with the FCA to develop a better iterative loop on regulatory approvals and authorisations. Again, international co-operation there is probably not such a big driver."[285]

Green finance

223. Green finance refers to structuring financial activity in a way that allows growth without harming the environment. The UK's Greening Finance Roadmap, published in October 2021, sets out how the UK financial system can go about aligning with the Government's Net Zero commitments, including through the development of a UK Green Taxonomy (which would establish criteria to define sustainable investment to prevent so-called

279 HM Treasury, *Kalifa Fintech Review Final Report* (26 February 2021): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/978396/KalifaReviewofUKFintech01.pdf [accessed 7 June 2022]

280 HM Treasury, 'Centre for Finance, Innovation and Technology: Steering Committee', (4 April 2022): https://www.gov.uk/government/publications/centre-for-finance-innovation-and-technology-steering-committee [accessed 7 June 2022]

281 See, for example, written evidence from London Market Group (RFS0009).

282 Written evidence from Innovate Finance (RFS0008)

283 Q 38; see also Q 5 (Rachel Kent).

284 Q 113

285 Q 112

'greenwashing'—the presentation of investment as 'green' when it is not).The EU is already in the process of finalising its own taxonomy, as are several other jurisdictions.

224. Nathanaël Benjamin of the PRA told the inquiry how the Bank of England had "for some time now, has been aiming to play a key role on the climate regulatory front":

> "First, in 2019, we set out our supervisory expectations of how firms should be governing, managing and having accountability for their climate risk exposures. These expectations are now in force. Secondly, we are currently running a major concurrent climate exploratory scenario analysis of all major UK banks and insurers … Thirdly, we are participating in the broader thinking, in the longer term, about climate-related capital requirements as part of international fora such as the Basel Committee."[286]

225. The UK's focus on this area was also emphasised by Edwin Schooling Latter of the FCA:

> "we have sought to move quickly and take a leading position in ESG [Environmental, Social and Governance] matters. I think we were the first jurisdiction, at least with a global financial centre, to ask listed companies to make disclosures in line with the global model set out by the Task Force on Climate-Related Financial Disclosures".[287]

226. Many witnesses agreed that this was an area that needed an internationally coordinated approach. Edwin Schooling Latter saw a "very strong case for global standards here. After all, the climate is a global issue."[288] Stéphane Boujnah of Euronext saw green taxonomy as an area for cooperation, in which the UK and the EU could "definitely lead because the two societies and the two peoples have the same preferences on climate change".[289] Rachel Kent of Hogan Lovells argued that "Five [green] taxonomies across the globe is not helpful", adding, "How does the UK participate in that to make sure that we do our part and help to maintain a leading financial centre but at the same time do not cause unnecessary fragmentation?".[290]

227. Similarly, the UK Sustainable Investment and Finance Association (UKSIF), which represents the UK sustainable finance sector, considered that:

> "very, very contrasting rules on taxonomies between the UK and EU could be damaging, and mean that firms in the UK will need to follow one set of taxonomy requirements for products marketed in EU markets and a separate set of requirements in the UK … [however] some of the significant issues we have seen with some of the EU's rules, such as its 'green taxonomy' and … [the EU Sustainable Finance Disclosure Regulation] … will need to be remedied as a priority in the UK's regime, meaning a degree of divergence will be necessary."[291]

286 Q 53
287 *Ibid.*
288 *Ibid.*
289 Q 91
290 Q 5
291 Written evidence from UK Sustainable Investment and Finance Association (RFS0007)

228. In contrast to FinTech, where the UK is already recognised as a world-leader and as having a head-start compared to the EU, there was also a widespread acknowledgment that the EU's own endeavours in green finance were already well-advanced.[292] Andrew Pilgrim noted that: "We have seen the EU take an early lead, particularly in terms of taxonomy … and it will be important for the UK to show that it is equally prioritising this very important issue but also thinking a little further ahead."[293] Lord Hill did consider, however, that although "on green finance the Europeans are getting a crack on", they are "going down a heavy and convoluted route" in their regulation of the sector.[294] Several other witnesses were also critical of the EU's approach to the regulation of green finance.[295]

229. Witnesses broadly agreed that there was a need and an opportunity for the UK to move quickly in this area. Peter Bevan of Linklaters pointed to the "incredible importance of transforming our economy to a more sustainable one in future," seeing "the use of the financial sector to drive that transformation [as] clearly critical".[296] Rachel Kent pointed to the UK's reputation for innovation, with the financial services sector acting as an "accelerator" in this. She saw the sector as capable of being "an accelerator of ESG issues, because they are not just large firms that have ESG issues in their own right; they also lend money."[297]

230. UKSIF acknowledged the leadership that the UK had shown so far with regard to sustainable finance and regulatory policy but saw there as being more that could be done to further advance the UK's "pre-eminent leadership position on sustainable finance". It supported "as much consistency as is possible between the UK and EU's sustainable finance regulations … but this should not come at the expense of implementing robust, world-leading regulations here at home". In this regard, it urged the UK to "learn from the EU's experience with its 'green taxonomy'" and "implement a robust 'green taxonomy' that sets the highest standard possible for green investment for the rest of the world to follow and is purely based in science".[298]

231. For the Government, the Economic Secretary cited the UK's championing of the international sustainability board at COP 26 and the UK's "common heritage with the EU in this area," adding that the UK had "worked very closely with the [EU] on the development of the EU taxonomy when we were part of the EU". He committed to looking at the EU's technical expert group as a "key influencer" in defining the UK's own disclosure requirements and technical screening criteria.[299]

232. In addition, the Economic Secretary agreed that "interoperability with the EU and other jurisdictions is obviously very important" and that he did not want to "burden industry with a distinct, different and inappropriate additional set of regulations that differ for the sake of it."

292 Q 91 (Stéphane Boujnah)
293 Q 38; see also Q 38 (Peter Bevan).
294 Q 74
295 Q 42 (Caroline Dawson) and written evidence from UK Sustainable Investment and Finance Association (RFS0007)
296 Q 38
297 Q 9
298 Written evidence from UK Sustainable Investment and Finance Association (RFS0007)
299 Q 112

233. **The Committee welcomes the Government's comprehensive and forensic approach to developing the regulatory and trading structures for innovative and novel products and technologies, including through high-profile Government-sponsored reviews such as those for green finance and FinTech. In particular, we welcome the UK's pioneering role in establishing 'regulatory sandboxes' for FinTech, which have since been imitated in other jurisdictions.**

234. **The Committee urges the Government to prioritise leadership and cooperation with its global partners in the establishment of global standards for novel and innovative products and technologies. In particular, we urge the Government to cooperate closely with the EU and other major jurisdictions on their respective approaches to Green Taxonomy, while ensuring that the UK's own approach is environmentally sound and grounded in science.**

Approaches to securing market access

235. As noted in Chapter 1, the TCA contains very few provisions concerning market access for the financial services sector. Indeed, witnesses largely agreed that Free Trade Agreements (FTAs) like the TCA rarely, if ever, made much provision for financial services. In the words of Richard Fox of the FCA, "FTAs … do not tend to focus on financial services other than possibly setting up … cooperation [fora]."[300]

236. However, the Government is currently exploring an alternative and innovative approach to improving the UK sector to foreign markets by negotiating a Mutual Recognition Agreement (MRA) with Switzerland. Many witnesses saw this approach as having significantly more potential than the FTA route.[301] Sam Woods explained: "[The] MRA process is a richer and better way of doing what is intended to be achieved by some bits of equivalence, because it is about the market access bits but, crucially … [is] outcome-based."[302] Richard Fox added:

> "[A] Mutual Recognition Agreement is a much more detailed assessment predicated on much more deference to the other side's system of laws and regulation. Therefore, it involves a more intense assessment on our part, as the regulators, on whether those frameworks deliver the same outcomes … FTAs are a good place to start, but if you really want deep cross-border trade you are more looking at an MRA".[303]

237. Miles Celic of TheCityUK agreed, telling the inquiry:

> "With the Swiss we are taking absolutely the right approach in trying to go for a mutual regulatory recognition arrangement. As a senior Swiss Government figure said to us, if you cannot have mutual regulatory recognition between the UK and Switzerland, it is very hard to think of two countries where it is possible at all. There is political will, and you have two highly sophisticated, well developed and in many ways very similar financial services and ecosystems that should be able to interlock pretty well, with two very high-class regulators that work well together."[304]

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300 Q 59; see also Q 25 (Sir Jon Cunliffe), Q 15 (Miles Celic) and Q 46 (Caroline Dawson).
301 See Q 46 (Caroline Dawson) and written evidence from the City of London Corporation (RFS0002).
302 Q 59
303 *Ibid.*
304 Q 15

238. Witnesses not only supported the current negotiations with Switzerland but saw the potential of an agreement as a precedent for future negotiations. Caroline Dawson of Clifford Chance hoped that if "we can achieve a very ambitious mutual recognition arrangement with Switzerland … it would be fantastic if we could use that as a template to roll out to other jurisdictions."[305]

239. For the Government, the Economic Secretary spoke of the "mutual appetite for similar standards of openness and giving each other access in different domains" in terms of the negotiations with Switzerland and also hoped that a successful agreement would be a "useful template for financial services with other jurisdictions", although he did not wish to be drawn into speculating which jurisdictions those might be.[306]

240. **The Committee welcomes the Government's innovative approach to securing market access for the UK's financial service sector and, in particular, hopes for the successful conclusion of a Mutual Recognition Agreement with Switzerland.**

241. **We urge the Government to continue to innovate and learn from its successes as it pursues further Mutual Recognition Agreements. While we note the traditional limitations of Free Trade Agreements with respect to financial services, the Government should continue to seek to embed the interests of financial services in the Free Trade Agreements it pursues as much as possible.**

The labour market

242. The UK's financial services sector has a reputation for cosmopolitanism and openness to immigration. Miles Celic was clear that this needed to continue, ensuring that the sector is "continuing to attract people, which is the single biggest issue for most of our members—getting the right talent, both domestically and internationally, into the UK."[307] This sentiment was echoed by Andrew Pilgrim, who stressed that "openness is key … [including] on immigration."[308]

243. The Economic Secretary spoke of the support the Government is providing in this regard:

> "In May last year we improved the visa for global talent. In the spring of this year, we have brought in the visa for high-potential individuals and the global business mobility visa. We will be looking to build on that this summer with announcements on the global talent network and how to bring in talent from key jurisdictions important to the growth of FinTech and the financial services sector."[309]

The importance of openness

244. More broadly, the evidence the Committee received showed widespread agreement with the need for the UK to retain its reputation for openness, "that key philosophy that has made the UK one of the major financial centres globally".[310] Caroline Dawson said it was important to ensure that "we do

305 Q 46
306 Q 101
307 Q 15
308 Q 39
309 Q 93 (John Glen MP)
310 Q 38 (Caroline Dawson)

not have a fortress UK approach, but a global financial centre approach and an openness approach. We have the ability outside of the EU to maintain that better than we would have been able to within the EU."[311] Peter Bevan stressed:

> "It would be a mistake for the UK to take the view that, because the EU is building a fortress that is very difficult to enter from outside, we should do the same to give ourselves a bargaining chip and say, "Well, we'll take our wall down now if you take yours down", because the building of that wall would inhibit the very kind of global financial centre that the UK has become so well known for and so successful at … it is the right approach for the UK to keep those barriers to entry low, appropriately protecting consumers in the way that the UK's current regime does … Maintaining that balance, even if there is no reciprocity on the side of the EU, will in itself be good for the growth of the UK system."[312]

245. For the Bank of England, Sir Jon Cunliffe agreed on the need for openness, arguing that "Being open enhances the efficiency and risk-sharing of the financial system". He cautioned that "it also necessitates the effective management of cross-border risks … Where other jurisdictions are not as open, this approach might naturally create some asymmetries between the UK and the other jurisdictions." However, he ultimately concluded that "the overall impact of such asymmetries are likely to be fairly limited, including from a competitiveness perspective."[313]

246. Key to maintaining the UK sector's openness was a rejection of reciprocity, where the UK would only take an open approach if other jurisdictions did the same. Caroline Dawson was unequivocal in her assessment that reciprocity was "not the way forward".[314] The City of London Corporation agreed: "the UK should not adopt a reciprocal approach. Unilateral recognition of overseas services and firms can provide significant benefits to UK customers with no threat to UK financial stability, market integrity or consumer protection."[315]

247. For the Government, the Economic Secretary reiterated "the agenda that the Chancellor has set out of being open, embracing technology, being competitive and embracing the opportunities of green finance and the green economy".[316]

248. **The Government is right not to adopt a 'Fortress UK' approach, and to prioritise openness. The Committee also welcomes the Government's non-reciprocal approach to maintaining the UK's openness to external participation in its financial markets and wider financial services sector. The Committee urges the Government to adopt a principle of openness in all aspects of its regulation and support of the UK's financial services industries. In this regard, the Committee urges the Government to continue to recognise the importance of immigration and access to talent to the openness of the sector.**

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311 Q 38
312 Q 39; see also Q 39 (Caroline Dawson).
313 Supplementary written evidence from Sir Jon Cunliffe (RFS0012)
314 Q 39
315 Written evidence from the City of London Corporation (RFS0002)
316 Q 93

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Introduction

1. The Committee asks the Government, in its response to this report, to provide a detailed breakdown of the figures for PAYE and corporate tax receipts for the previous five years, to support the Economic Secretary's view in his evidence that tax receipts from the financial services sector have been resilient since Brexit. (Paragraph 13)

2. We welcome the fact that, overall, the UK financial services sector remains optimistic about its prospects for the future, and that significantly fewer jobs have so far left the sector than had been anticipated. This demonstrates both the continued strength and the resilience of the sector in the UK. (Paragraph 46)

3. We warn, however, against any complacency in this regard, as it is not clear whether the full impact has yet played out. We note that there are many factors, both ongoing and on the horizon, including EU regulatory and political decision-making, that may have a significant impact on the sector, with the risk that further jobs will move out of the UK. (Paragraph 47)

4. The fragmentation of job moves across EU financial centres highlights that no single EU financial centre has so far emerged as a serious rival to London. Nevertheless, the Committee is concerned that fragmentation could raise cost and reduce liquidity for businesses served by the UK and EU financial services sectors. We urge the Government to work with the EU, and its institutions, to ensure that London is able to maintain the depth and liquidity needed in order to continue to function as the prime source of capital for the European market. (Paragraph 48)

5. We note the movement of assets and infrastructure out of the UK. We ask the Government to set out what steps it is taking to monitor this and to ensure that it does not harm the competitiveness, profitability, or operational capabilities of the UK's financial services sector. We also ask the Government to set out in its response to this report what assessment it has undertaken of the costs and risks to the sector and the wider UK economy by the movement of assets and infrastructure out of the UK following Brexit. (Paragraph 51)

6. We support the Government's broad policy aims for the financial services sector, as far as they go, and hope that these will be enacted in a proportionate and evidence-based way. (Paragraph 59)

7. We ask the Government in its response to this report to set out the specific steps it has taken and is proposing to take to fulfil the ambition and promise of the aims set out in the Chancellor's 2021 Mansion House Speech and in 'A new chapter for financial services'. (Paragraph 60)

8. Despite our broad support for the Government's policy aims, it is important that the Government ensures financial services policy is not focused too heavily on the City of London alone. We therefore ask the Government to provide a full explanation of how it intends to support those parts of the sector operating throughout the rest of the UK with respect to the UK's evolving relationship with the EU. (Paragraph 61)

Equivalence

9. We welcome the UK's open approach to granting its own equivalence decisions. We view this openness as one of the UK's great strengths in navigating its global relationships in the post-Brexit era. (Paragraph 72)

10. We regret that the EU has opted not to grant equivalence to the UK in a number of areas where it would be beneficial to market actors in the UK and the EU. We note that the Government does not consider the lack of equivalence in these areas to pose a significant problem, despite the effort originally expended in submitting information to the EU as part of the latter's consideration of the UK's regime. (Paragraph 100)

11. However, we recognise that further equivalence decisions are ultimately a matter for the EU. We therefore agree that it would be misguided to base the UK's future strategy for the sector on something that is not in the Government's gift and that currently seems unlikely to be forthcoming. (Paragraph 101)

12. Contrary to the Committee's expectations at the outset of this inquiry, we recognise now that the low number of equivalence decisions is not seen within the sector as a matter of fundamental concern. The sector has successfully adapted to operating without equivalence and sees limited benefit now in making further adaptions to accommodate it. We also recognise that the EU currently seems unlikely to grant further equivalence decisions without the UK constraining its regulatory flexibility and ability to diverge. (Paragraph 102)

13. Although the imbalance between the number of decisions the EU has granted to the UK compared to other jurisdictions is striking, the evidence we received suggested that the impact of this on UK competitiveness has been limited. We also recognise that not all equivalence decisions are equal and that most granted to other jurisdictions are unconnected to the crucial issue (as far as the UK is concerned) of market access. (Paragraph 103)

14. We ask the Government, in its response to this report, to set out the extent to which it believes there to be a competitive disadvantage as a result of the imbalance in equivalence decisions, and how it intends to address any such competitive disadvantage. (Paragraph 104)

15. We also note that there is continued medium-term uncertainty. While the lack of equivalence has been less detrimental than anticipated prior to the end of the transition period, this has partly been as a result of specific business-model adaptations. (Paragraph 105)

Regulatory cooperation

16. The Committee regrets the fact that the UK-EU Memorandum of Understanding on regulatory cooperation is still not in place, despite technical negotiations having concluded more than a year ago. The Committee notes the widespread view that the MoU has become a casualty of wider tensions between the Parties, particularly regarding the implementation of the Protocol on Ireland/Northern Ireland. (Paragraph 113)

17. We consider the lack of a structured mechanism for regulatory cooperation on financial services between the UK and the EU to be particularly striking

given that both the UK and the EU have established structured dialogues with other partners, notably with the United States. (Paragraph 114)

18. We consider that the Government's overall objective should remain the earliest possible entry into force of the Memorandum of Understanding and that, as and when it enters into force, the Government should make the fullest use of the dialogue established to work for effective cooperation with the EU in this important sector. (Paragraph 115)

19. The Committee acknowledges that the non-implementation of the Memorandum of Understanding does not appear to have posed major practical problems to date, particularly as it is a tool for political cooperation rather than something that, in itself, facilitates market access. However, the Memorandum of Understanding would provide a useful mechanism and structure for future strategic dialogue and cooperation between the UK and the EU, and the Committee considers that its implementation would benefit both sides. (Paragraph 124)

20. We caution the Government against complacency in this area. Despite the limited impact of the non-finalisation of the Memorandum of Understanding to date, its real value is likely to be found in the future as the UK and the EU diverge, particularly in the event of cross border financial services developments and potential future crises that may require transnational solutions. (Paragraph 125)

21. The Committee welcomes the series of bilateral Memoranda of Understanding that have been agreed between UK and European regulators and supervisors at both EU-wide level and Member State level. These appear to be working well and have meant that day-to-day regulatory and supervisory cooperation has continued despite the lack of a higher-level UK-EU Memorandum of Understanding. (Paragraph 130)

22. Alongside formal regulatory cooperation, the Committee urges the Government to increase its political and diplomatic engagement on financial services both with the European Commission and with key Member State capitals. (Paragraph 133)

23. While welcoming news of the Economic Secretary's recent meeting with the European Commissioner for Financial Services, we are concerned that such meetings are not taking place with the structure or regularity needed for close UK-EU cooperation. Notwithstanding the importance of establishing a more comprehensive structure for regulatory cooperation with the EU, we therefore recommend that these meetings take place at least once a year and are used as a forum for discussing regulatory cooperation and raising any issues of concern. (Paragraph 134)

Regulatory reform and divergence

24. Although the retention in primary legislation of key aspects of EU financial services law at the point of the UK's departure from the EU was the right decision for regulatory stability, it now means that the UK regulatory framework for financial services is complicated, unwieldy, and difficult to amend. Accordingly, the Committee welcomes the Government's Future Regulatory Framework Review. (Paragraph 144)

25. The Committee notes that, as a result of the Future Regulatory Framework Review, the Government is considering introducing an additional, secondary

'competitiveness' objective for the Financial Conduct Authority and the Prudential Regulation Authority. However, it is equally important for the UK's overall economic competitiveness for the Government and regulators to work together to develop a broader regulatory culture that is responsive, consistent, and proportionate. (Paragraph 151)

26. We ask the Government, in its response to this report, to explain in further detail how a secondary 'competitiveness' objective would be applied by the regulators in practice and how success will be measured. (Paragraph 152)

27. The Committee agrees with the Government that, in the interests of flexibility, agility and proportionality, many of the regulations currently contained within primary legislation would be more appropriately managed by the regulators themselves. However, it is essential that this transfer of powers is accompanied by appropriate mechanisms for Parliament to scrutinise the regulators and hold them to account, and that the regulators are given sufficient resources to allow them to accommodate the increase in their workloads resulting from such a change. (Paragraph 160)

28. The details of parliamentary scrutiny and accountability of the regulators are a matter for Parliament, but we ask the Government to commit to facilitating the establishment of appropriate mechanisms as necessary. (Paragraph 161)

29. The Committee recognises the need for continued scrutiny of ongoing and future developments that might affect the sector. In this regard, we welcome the Chancellor of the Exchequer's commitment to make an annual 'State of the City' report to Parliament, as proposed by Lord Hill in the UK Listings Review. (Paragraph 167)

30. The Chancellor has committed to presenting the first of these 'State of the City' reports this year, but it is unclear when this will be; the Government should provide clarity on this. We recommend that this report includes for at least the next five years a section dealing expressly with the UK-EU relationship in financial services. (Paragraph 168)

31. The Committee welcomes the launch of a series of reviews into the regulatory framework governing financial services that the UK inherited from the EU. The Committee is concerned, however, that progress on some of these reviews appears to have stalled. (Paragraph 174)

32. The Committee asks for an update on the progress of the various reviews into the regulation of financial services in the Government's response to this report. (Paragraph 175)

33. Diverging from EU law may present opportunities for the UK's financial services sector, and the Committee notes the sector's positivity about pursuing these opportunities. Much of the inherited acquis was designed to cater to 28 countries, and Brexit provides an opportunity for the UK to innovate and to tailor the regulation of its financial services sector to reflect the UK's own interests. (Paragraph 187)

34. It is nonetheless vital that the Government balances the benefits of reform against the cost of implementing new rules, and that the sector is not now subject to a constant process of piecemeal change. Some pieces of EU regulation were unpopular with businesses when they were implemented but are now regarded by the sector as a sunk cost, further reform of which would impose an additional, unnecessary cost burden on the sector. (Paragraph 188)

35. UK-EU divergence will also be driven by future regulatory changes on the part of the EU. The Committee notes the contrast between the UK's approach of an internationally open financial services sector and the EU's prioritisation of control and market location as part of its drive for 'open strategic autonomy' and is concerned that the latter could lead to increased barriers to cross-border trade in financial services. (Paragraph 195)

36. After the UK's exit from the EU, it was inevitable that the UK would lose the ability as a Member State to influence the EU's legislative processes directly. Nevertheless, the Committee is concerned by the Government's apparent unwillingness to use its wider influence and diplomatic resources in order to engage with the EU and its institutions to further the UK's interests, as other third countries do. (Paragraph 196)

37. The Committee asks the Government to clarify its approach to engaging politically and diplomatically with the EU and its institutions to support and advance the interests of the UK's financial services sector in the EU's legislative decision-making processes. (Paragraph 197)

38. Notwithstanding the inevitability of UK-EU divergence on the details of financial services regulation, and the opportunities this is likely to afford the UK's financial services sector, in the long-term, the Committee considers that there is a strong case for pursuing global convergence on the principles and outcomes of the regulation of financial services. (Paragraph 200)

39. In terms of data flows between the UK and the EU, the Committee recognises the possibility that the Government's plans for reform of the UK's data protection rules could lead to the withdrawal or non-renewal of the EU's data adequacy decision for the UK. This could have consequences for a range of service providers engaged in cross-border personal data transfers, including for some financial services providers, primarily those handling retail business. (Paragraph 211)

40. The Economic Secretary told this inquiry that the decisions the Government will take on the UK's future data protection regime will "reflect what is right for the UK interest". In the Committee's view, it is in the UK's interest that it continues to benefit from the EU's positive data adequacy assessment. (Paragraph 212)

41. While the future of these adequacy decisions is ultimately a matter for the EU, the Committee urges the Government to ensure that it carefully considers the implications of losing data adequacy, including for the financial services sector, into its future changes to the UK's domestic data protection framework, particularly under the forthcoming Data Reform Bill. (Paragraph 213)

Opportunities

42. The Committee welcomes the Government's comprehensive and forensic approach to developing the regulatory and trading structures for innovative and novel products and technologies, including through high-profile Government-sponsored reviews such as those for green finance and FinTech. In particular, we welcome the UK's pioneering role in establishing 'regulatory sandboxes' for FinTech, which have since been imitated in other jurisdictions. (Paragraph 233)

43. The Committee urges the Government to prioritise leadership and cooperation with its global partners in the establishment of global standards for novel and innovative products and technologies. In particular, we urge the Government to cooperate closely with the EU and other major jurisdictions on their respective approaches to Green Taxonomy, while ensuring that the UK's own approach is environmentally sound and grounded in science. (Paragraph 234)

44. The Committee welcomes the Government's innovative approach to securing market access for the UK's financial service sector and, in particular, hopes for the successful conclusion of a Mutual Recognition Agreement with Switzerland. (Paragraph 240)

45. We urge the Government to continue to innovate and learn from its successes as it pursues further Mutual Recognition Agreements. While we note the traditional limitations of Free Trade Agreements with respect to financial services, the Government should continue to seek to embed the interests of financial services in the Free Trade Agreements it pursues as much as possible. (Paragraph 241)

46. The Government is right not to adopt a 'Fortress UK' approach, and to prioritise openness. The Committee also welcomes the Government's non-reciprocal approach to maintaining the UK's openness to external participation in its financial markets and wider financial services sector. The Committee urges the Government to adopt a principle of openness in all aspects of its regulation and support of the UK's financial services industries. In this regard, the Committee urges the Government to continue to recognise the importance of immigration and access to talent to the openness of the sector. (Paragraph 248)

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

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

Declarations of interest

Baroness Couttie

Non-Executive Director at Mitie

Commissioner with the Guernsey Financial Services Commission

Lord Faulkner of Worcester

No relevant interests to declare

Lord Foulkes of Cumnock

No relevant interests to declare

Lord Hannay of Chiswick

Member of the Advisory Board of the Centre for European Reform

Member of the European Leadership Network

Lord Jay of Ewelme

No interests declared

The Earl of Kinnoull (Chair)

Interests as noted in the register including shareholdings in Hiscox Ltd and Schroders plc

Lord Lamont of Lerwick

Director of the European Opportunities Investment Trust

Advisor at Halkin Investments

Member of the Advisory Board of the Official Monetary and Financial Institutions Forum

Lord Liddle

No interests declared

Lord Purvis of Tweed

No relevant interests to declare

Baroness Scott of Needham Market

No relevant interests to declare

Viscount Trenchard

No interests declared

Lord Tugendhat

No relevant interests to declare

Lord Wood of Anfield

Director at Janus Henderson Diversified Income Trust (HDIV)

Specialist Adviser

Professor Sarah Hall

No relevant interests to declare

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at https://committees.parliament.uk/work/6514/ukeu-relationship-in-financial-services/publications/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with ** gave both oral and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

**	Miles Celic, Chief Executive Officer, TheCityUK	QQ 1–16
*	Rachel Kent, Partner, Head of Financial Institutions Group, Hogan Lovells	
*	Dr Gerard Lyons, Senior Fellow at Policy Exchange and Chief Economic Strategist at Netwealth Investments	
**	Sir Jon Cunliffe, Deputy Governor for Financial Stability, Bank of England	QQ 17–36
*	Peter Bevan, Partner, Linklaters	QQ 37–49
*	Caroline Dawson, Partner, Clifford Chance	
*	Andrew Pilgrim, UK Government and Financial Services Leader, EY	
*	Nathanaël Benjamin, Executive Director for Authorisations, RegTech and International Supervision, Prudential Regulation Authority	QQ 48–62
*	Richard Fox, Director of International, Financial Conduct Authority	
*	Edwin Schooling Latter, Director of Markets and Wholesale Policy and Wholesale Supervision, Financial Conduct Authority	
*	Sam Woods, Chief Executive, Prudential Regulation Authority	
*	Lord Hill of Oareford CBE, former European Commissioner for Financial Stability, Financial Services and Capital Markets Union	QQ 63–78
*	Stéphane Boujnah, CEO and Chairman of the Managing Board, Euronext	QQ 79–92
**	Michael Dobson, Chairman, Schroders plc	
*	John Glen MP, Minister of State (Economic Secretary and City Minister), HM Treasury	QQ 93–115
*	Richard Knox, HM Treasury Director, Financial Services	

Alphabetical list of all witnesses

*	Nathanaël Benjamin, Executive Director for Authorisations, RegTech and International Supervision, Prudential Regulation Authority (QQ 48–62)	
*	Peter Bevan, Partner, Linklaters (QQ 37–49)	
	Graham Bishop	RFS0011
*	Stéphane Boujnah, CEO and Chairman of the Managing Board, Euronext (QQ 63–78)	
**	Miles Celic (Chief Executive Officer at The CityUK) (QQ 1–16)	RFS0003
	The City of London Corporation	RFS0002
**	Sir Jon Cunliffe, Deputy Governor for Financial Stability, Bank of England (QQ 17–36)	RFS0012
*	Caroline Dawson, Partner, Clifford Chance (QQ 37–49)	
**	Michael Dobson (Chairman at Schroders plc) (QQ 79–92)	RFS0004
*	Richard Fox, Director of International, Financial Conduct Authority (QQ 63–78)	
	Dr Andromachi Georgosouli and Professor Rosa Maria Lastra, Centre for Commercial Law Studies, Queen Mary University of London	RFS0010
*	John Glen MP, Minister of State (Economic Secretary and City Minister), HM Treasury (QQ 93–115)	
	Innovate Finance	RFS0008
*	Rachel Kent, Partner, Head of Financial Institutions Group, Hogan Lovells (QQ 1–16)	
*	Richard Knox, HM Treasury Director, Financial Services (QQ 93–115)	
*	Dr Gerard Lyons, Senior Fellow at Policy Exchange and Chief Economic Strategist at Netwealth Investments (QQ 1–16)	
	London and International Insurance Brokers' Association (LIIBA)	RFS0001
	London Market Group	RFS0009
	New Financial	RFS0006
*	Andrew Pilgrim, UK Government and Financial Services Leader, EY (QQ 37–49)	
*	Edwin Schooling Latter, Director of Markets and Wholesale Policy and Wholesale Supervision, Financial Conduct Authority (QQ 48–62)	
	UK Finance	RFS0005

	UK Sustainable Investment and Finance Association (UKSIF)	RFS0007
*	Sam Woods, Chief Executive, Prudential Regulation Authority (QQ 48–62)	