



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

Baroness Donaghy  
Chair of the EU Services Sub-Committee  
House of Lords  
London  
SW1A 0PW

21 September 2020

Dear Baroness Donaghy,

Thank you for your letter of 20 July 2020, following on from my appearance before the House of Lords EU Services Sub-Committee on 2 July 2020.

I am very happy to provide responses to the questions in your letter, relating to UK-EU equivalence decisions, future UK-EU regulatory cooperation and the future regulatory framework for UK financial services.

***The UK-EU equivalence decisions***

The UK has from the start taken a pragmatic approach to the future relationship on financial services, and have been clear from the beginning that politicisation of equivalence is in no-one's interests. The UK remains open to future cooperation with the EU which reflects our wider financial services relationship, and will continue to engage with the EU in a friendly and productive manner.

We have adopted a reasonable, proportionate but thorough approach to our equivalence assessments. The UK and EU start from a position of having similar financial services regulation and a history of close cooperation, so these should be straightforward assessments. The EU has decided to make, at most, limited equivalence decisions with respect of the UK. The Government is considering next steps.

You asked about the upcoming Guidance Document on the UK's equivalence framework and how it will interact with equivalence decisions for third countries. The UK is committed to an outcomes-based approach to equivalence – that means acknowledging how different approaches to regulation can achieve the

same regulatory objectives. The operation of an outcomes based approach to equivalence will need to be based on common high standards and cooperation with overseas jurisdictions to ensure they achieve their objectives and can be effectively monitored thereafter. Any decisions the UK will make for third countries – including the EU – will be based upon these principles. The purpose of the Guidance Document is to set out in more detail the process and the principles that underpin the UK's equivalence framework.

### ***Future UK-EU regulatory cooperation***

Our proposal on regulatory cooperation to the EU was based upon widely accepted international principles, which the EU has in the past agreed to (including within the structure of an FTA). We would not want to compromise the UK's regulatory and decision making autonomy, and equally would not expect the EU to do so as part any agreement on cooperation between us.

You asked about the differences between the UK and EU's respective approaches to regulatory cooperation. In terms of structure, we put forward the concept of having an Annex within the FTA that would cover regulatory cooperation in financial services. The EU have been clear that they would prefer to agree to regulatory cooperation outside of the FTA. This difference of structure, whilst significant, does not inherently introduce any limitations on future engagement between the UK and the EU. More substantively, in our view a valuable feature of the kind of structured dialogue we proposed is clarity and transparency around the process of autonomous decision-making that each side will take with respect to the other.

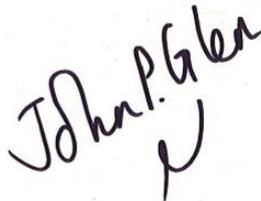
### ***The future regulatory framework***

As you note, the Government will shortly be publishing a consultation paper on the second phase of the Financial Services Future Regulatory Framework (FRF) Review. The model we will be consulting on aims to ensure an agile and responsive framework by allowing the UK financial services regulators to use their expertise and experience to lead on developing regulatory requirements for firms. Given this involves delegating day-to-day regulatory responsibilities to the regulators, we must carefully review the framework arrangements for accountability and scrutiny.

Engagement with Parliament will need to be a key part of this, particularly in relation to parliamentary scrutiny where Parliament should lead on shaping how they will be part of this approach. I am keen to meet with you to outline our approach in more detail and hear your views on how Parliament can best scrutinise financial services policy moving forward. In addition, following the

publication of the document, I would be happy to appear in front of your committee to further discuss the future framework.

The important and complex nature of these questions makes an in-depth review necessary and the Government wants to seek views on all possible options from a wide range of stakeholders. As such, the Government will carefully consider the responses received to this first consultation, and use these to inform a second more detailed consultation in 2021. This will set out specific proposals for how the framework will be delivered and further in-depth engagement with Parliament will of course be necessary at this stage. When developing this model, we have looked to other countries and regulatory systems to determine best practice and identify commonalities. However, we must ensure the approach taken is right for the UK and that we are alive to the unique circumstances, opportunities, and challenges presented by the regulation of our world-leading financial services sector.

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

JOHN GLEN