

9 May 2022

HOL European Affairs Committee UK-EU relationship in financial services

Thank you once again for the opportunity to speak to the Committee on 8 February, as part of your inquiry into the future of financial services after Brexit.

Further to your recent discussions with my policy team, I am writing to provide further clarification and evidence in the three areas identified.

1) Equivalence

To confirm the last time equivalence was granted between the UK and another country.

February 2021 was the last time equivalence was granted between the UK and another country. This was for Switzerland in relation to its Share Trading Obligation.¹

To confirm the last time equivalence was granted between the EU and a major alternative financial centre.

The European Commission's [List of equivalence Decisions](#) states all equivalences granted as of February 2021.

The latest equivalence decision the EU granted was on 8 February 2022, extending the temporary equivalence granted in respect of the UK's supervisory framework for central clearing counterparties (CCPs) by three years, until 30 June 2025: [Commission Implementing Decision \(EU\) 2022/174](#).

Prior to this, the most recent group of equivalence decisions taken in 2021 relate to EMIR (after the end of the UK's post-Brexit transition period):

Brazil

[Commission Implementing Decision \(EU\) 2021/1103](#) of 5 July 2021

Canada

[Commission Implementing Decision \(EU\) 2021/1104](#) of 5 July 2021

¹HMT Policy paper, [Table of UK Equivalence Decisions](#), 14 January 2021, found at: <https://www.gov.uk/government/publications/guidance-document-for-the-uks-equivalence-framework-for-financial-services>

Singapore

[Commission Implementing Decision \(EU\) 2021/1105](#) of 5 July 2021

Australia

[Commission Implementing Decision \(EU\) 2021/1106](#) of 5 July 2021

Hong Kong

[Commission Implementing Decision \(EU\) 2021/1107](#) of 5 July 2021

United States of America

[Commission Implementing Decision \(EU\) 2021/1108](#) of 5 July 2021

[Commission Implementing Decision \(EU\) 2021/583](#) of 9 April 2021

[Commission Implementing Decision \(EU\) 2021/85](#) of 27 January 2021

2) Number discrepancy

To provide clarification on the discrepancy Lord Purvis noted in figures TheCityUK had quoted and those seen in a HoC Library briefing paper.

We note Lord Purvis quoted from a House of Commons (HOC) Library [briefing paper](#) which said:

“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 response to the figures quoted:

- TheCityUK does not present quarterly data in our Economic Research reports.
- We have been unable to verify the source for the figures in the HoC paper and as such, have used ONS datasets (attached).
- This illustrates, for example, that Financial Services (FS) exports to the EU were £25.7bn in 2020. However, the paper states “In 2020, exports of financial services to the EU were worth £21 billion.”
- The discrepancy in these figures may be a result of the HOC paper using a different dataset, a different definition of FS, or they may have seasonally adjusted the data. Without further information about the sources and methods used it is difficult to determine why their numbers differ from the data published by ONS.
- We also checked the TheCityUK’s report [Key facts about the UK as an international financial centre 2021](#) which does not reference FS exports to the EU but does state that the UK was trading more now with other economies like the US, for example: “Financial services trade is conducted primarily with other advanced economies. The US is the largest single destination for the UK’s financial services exports, accounting for 34.2% of total financial services exports. As a bloc, EU Member States accounted for 30% of total sector exports.”

- Whilst our International Key Facts report does not cover exactly the same data points as the HOC Library paper Lord Purvis referred to, it does show that the US is now the largest single destination for the UK's financial services exports, accounting for 34.2% of total financial services exports, and that exports to the US have overtaken exports to the EU (which now accounts for 30% of total sector exports).

3) Job losses

To provide information on which specific sector(s) have driven the headline reduction in the number of jobs in financial and related professional services (FRPS).

On FRPS employment:

- Financial services employment was 1.036m in 2020 compared with 1.052m in 2016, although the decline has not been steady.
 - Within this category, banking employment had the biggest influence (broadly speaking) on the overall FS employment trend, declining by an annual average of 1.5% a year over 2017-2020. (To stress, that is an **average** – again, the decline was not steady over the years).
- Related professional services employment was 1.266m in 2020 compared with 1.215m in 2016
 - Accounting and consulting (in 2016 compared to in 2020) employment rose fairly strongly (thought again, not steadily). Legal employment, however, declined from 510,000 in 2016 to 478,000 in 2020.

UK Employment Financial Services	2016	2020
Banking	394,000	370,000
Insurance	318,750	321,250
Fund Management	50,000	69,000
Other	289,250	275,500
UK Employment Related Professional Services	2016	2020
Accounting	369,000	430,000
Consulting	336,000	358,000
Legal	510,000	478,000

I hope this information has been helpful. If TheCityUK can support the Committee in any other way, please do not hesitate to get in touch.

Yours sincerely,



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