

The Earl of Kinnoull
EU Affairs
Committee House
of Lords London,
SW1A 0PW

Dear Lord Kinnoull,

UK Finance written evidence on UK-EU relationship in financial services

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms, we act to enhance competitiveness, support customers and facilitate innovation. I welcome the opportunity for UK Finance to provide written evidence to the House of Lords EU Affairs Committee regarding its inquiry into the UK-EU relationship in financial services (FS).

The UK is a leading international financial centre, and financial services are the UK's most successful international export. The UK is the world's top net exporter of financial services and the EU is a key market for those firms operating in the UK, with almost a third of the UK's FS exports going to EU member states. FS 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.

Regulatory cooperation

Both the UK and EU share a common goal of upholding transparent and resilient financial markets, and while the UK is currently reviewing its FS regulatory framework, both the Government and regulators have made clear that the UK will maintain its high regulatory standards in FS. Through a memorandum of understanding (MoU), the EU and the UK have committed to a structured regulatory dialogue, ideally to work collaboratively in the pursuit of shared objectives. The EU is yet to ratify the MoU, however cooperation between UK and EU regulatory authorities is an important priority for industry given the interconnectedness of the UK's and EU's respective FS industries.

EU market access and equivalence

In preparation for Brexit, the UK onshored all relevant EU-based rules into UK law. Though the UK rulebook is substantively closer to the EU rulebook than those of other jurisdictions, the EU has chosen not to grant equivalence in favour of the UK (other than, temporarily, in relation to the EU EMIR clearing obligation, which is due to expire in June 2025). The EU has also made proposals in CRD6 which, if implemented in its

current form, would mean that firms in EU third countries (which includes the UK) could only carry out a range of certain banking services in the bloc via a third country branch in the EU, or via reverse solicitation.

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Cross-border FS trade flows between different countries and blocs not only benefit the providers and recipients of financial capital, they also support investment in the rest of the economy and trade in goods and other services. It also provides choice for businesses and consumers around the world, including those in the UK and EU, while pushing down costs for them.

Relocation of UK jobs and assets to the EU

A significant amount of research has been carried out by organisations since 2016 on the extent to which Brexit-related activity within the UK financial services market – covering the relocation of staff and/or operations, the establishment of new EU hubs or offices, and the flow of assets to the EU – has taken place. Professional services firm EY in particular continues to provide its assessment on the number of Brexit-related job move announcements.

UK Finance sees that the growth in banking and financial services jobs in the City, and the engagement of our EU-headquartered members in UK markets initiatives, is notably strong. Also, the total assets of the UK banking sector in mid-2021 was \$14.3trn (£10.3trn) – the third largest in the world after China and the US, and the largest in Europe.

Opportunities for the sector post-Brexit.

Since leaving the EU, the UK is able to tailor its rules to reflect the characteristics of its open market more, including to ease access to products and services provided in or from the UK to clients abroad. The UK's position outside of the single market rulebook presents an opportunity to address elements of onshored EU rules which do not function effectively or serve their intended purpose. Progress has already been made in this regard with recent changes to the listings rules and the ongoing work to reform UK MiFID; all of which seek to helpfully tailor and calibrate the rules to the UK market.

The UK's position outside of the EU also means that it can independently negotiate and secure trade deals both bilaterally with a country and through international partnerships, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This provides the Government with the opportunity to secure the UK further and better access to other countries' FS markets as a key priority in the UK's trade agreement negotiations. This could, for example, be through the development of a comprehensive strategy for financial services, with a particular focus on regulatory diplomacy. Open and strong links with other key financial centres will increase the UK's participation in international markets, support trade and stimulate UK firms by exposing them to international competition, all of which benefit businesses and consumers throughout the UK.

The UK should continue to recognise the benefits of open, resilient, and globally coordinated financial markets. In doing so, it promotes a fair and level playing field for the provision of cross- border business while maintaining high regulatory standards. It also ensures, to the safest possible extent, that barriers to market access are limited.

Yours

sincerely

Angus

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Director, International Affairs 10 May 2022