

Research Briefing
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By Ali Shalchi
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The UK-EU trade deal: financial services

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What are financial services?

Many people know that banking and insurance are part of the financial services sector, but they find it hard to define what a financial service is.

According to the International Monetary Fund, a financial service is the process of acquiring a financial good. So the financial service is not the actual financial product being sold – like a mortgage or insurance policy – but the process of acquiring it.

At its heart, the financial services sector acts as an intermediary matching people who want to lower risks with those who are willing to take on that risk. In car insurance, for example, a driver might take out a policy so that their costs are covered in the event of an accident. By paying their insurance premium, the driver lowers their risk by transferring it to the insurer.¹

¹ International Monetary Fund, [Financial Services: Getting the Goods](#), updated 24 February 2020

2 Financial services in the UK

Financial services is one of the UK's biggest sectors, contributing 6.9% of total economic output in 2019. Our briefing paper [Financial services: contribution to the UK economy](#) outlines its contribution.

3 Brexit

In 2019, 40% of UK financial services exports went to the EU.

As part of the European single market, the UK enjoyed substantial market access in financial services to the rest of the EU through a system known as “passporting”.

Upon leaving the European single market on 31 December 2020, UK financial services lost passporting rights. Market access is now determined by a separate mechanism known as “equivalence”.

See our Insight post '[Equivalence' with the EU on financial services](#) for a description of how equivalence works.

The UK-EU trade deal

On Christmas Eve 2020, the Government announced that a trade deal had been reached with the EU. The text was published on Boxing Day.²

The House of Commons voted overwhelmingly in favour of legislation to implement the deal on 30 December by 521 votes to 73,³ and it took effect from 11pm on 31 December 2020.⁴

What did the UK want?

The Political Declarations agreed with the EU by Mrs May in [November 2018](#) and Mr Johnson in [October 2019](#) contained the same three-paragraph wording on financial services.⁵ In summary, the UK and EU agreed:

- to commit to preserving financial stability, market integrity, investor protection and fair competition, while respecting regulatory autonomy;
- to endeavour to conclude equivalence assessments before the end of June 2020; and

² Prime Minister's Office, [Agreements reached between the United Kingdom of Great Britain and Northern Ireland and the European Union](#), first published 24 December 2020

³ Hansard, [Division 191: held on Wednesday 30 December 2020](#)

⁴ See the [European Union \(Future Relationship\) Act 2020](#)

⁵ See paras 37 to 39 of Mrs May's Political Declaration, and paras 35 to 37 of Mr Johnson's

- to close and structured regulatory cooperation, grounded in the economic partnership, recognising that this is in the mutual interests of both sides.⁶

Equivalence

The agreed deadline in the Political Declaration for concluding equivalence assessments before the end of June 2020 was missed, with both sides blaming each other.⁷ On 9 November 2020 Chancellor Rishi Sunak announced the [publication](#) by the UK of its own equivalence assessments. But, with two temporary exceptions,⁸ so far the EU has refused to publish its own equivalence decisions. The EU’s financial services commissioner Mairead McGuinness has repeatedly said there is “no rush” to grant any more equivalence decisions to the UK.⁹

The two temporary exceptions relate to (i) the use of UK clearing houses for derivatives transactions until the end of June 2022;¹⁰ and (ii) recognition of a UK [Central Securities Depository](#) (CSD) for settlement of (mainly) Irish securities until the end of June 2021.¹¹ In preparation for the expiration of this equivalence decision, holdings for around €100 billion of Irish securities moved from London to Brussels in March 2021.¹²

The deal (formally the [Trade and Cooperation Agreement](#), or TCA)

The Financial Times notes that the TCA mentions financial services 90 times, but the word “fish” or variations of it appears 368 times.¹³ The references to financial services are largely precedents based on the trade agreement the EU negotiated with Japan. But unlike the EU-Japan Agreement, the TCA contains no obligation to consult before revoking equivalence decisions¹⁴ and no annex on regulatory cooperation (but there is a Joint Declaration, as discussed below).¹⁵

Instead the TCA contains some general rules on trade in financial services, for example:

⁶ HM Government, [The Withdrawal Agreement and Political Declaration on our future relationship with the EU](#), slide 25

⁷ See Financial Times, [Recriminations fly between EU and UK over financial services](#), 29 June 2020

⁸ Financial Times, [How the UK and EU are quietly diverging when it comes to financial services](#), 3 June 2021

⁹ Ibid

¹⁰ See [ESMA to recognise three UK CCPs from 1 January 2021](#), 28 September 2020

¹¹ ESMA, [ESMA TO RECOGNISE EUROCLEAR UK & IRELAND LIMITED \(EUI\) AFTER BREXIT TRANSITION PERIOD](#), 11 December 2020

¹² Financial Times, [Irish assets leave London in €100bn post-Brexit switch](#), 15 March 2021

¹³ Financial Times, [Inside the Brexit deal: the agreement and the aftermath](#), 22 January 2021

¹⁴ See para 12 of [Annex 8-A of the EU-Japan Agreement](#)

¹⁵ See Norton Rose Fulbright, [The Brexit trade deal – what it really means for financial services](#), 25 January 2021

- neither the UK nor EU should limit the number of the other's firms that can operate in its market or limit the number of people they can employ;¹⁶
- the other's firms should enjoy no less favourable treatment than other national or foreign suppliers;¹⁷
- both the UK and EU agree to grant to the other's financial service suppliers which are operating in their markets access to any payment systems operated by the State;¹⁸ and
- both parties agree to use their best endeavours to ensure that international financial services standards such as those from the G20, the Financial Stability Board and the Basel Committee on Banking Supervision, are implemented and applied.¹⁹

As with the EU-Canada free trade agreement, the general rules contain a “prudential carve-out”. This means that nothing in the TCA prevents the UK or EU adopting rules for prudential reasons such as protecting investors or ensuring the integrity and stability of their financial systems.²⁰

Altogether, the rules on financial services in the TCA provide for greater access between the UK and EU in financial services than would have applied under a no-deal scenario. However, access still falls far short of what businesses had as part of the European single market.²¹

Prime Minister Boris Johnson has said the deal does “not go as far as we would like” on financial services. According to the Financial Times “many City of London executives say it is effectively a “no deal” Brexit for them”.²²

Chancellor Rishi Sunak has cited provisions around data, business travel, legal and professional services, and “strong language” on future regulatory cooperation in support of his claim that there are “many things in the deal that are good for financial services”.²³

A 22 January 2021 Financial Times analysis stated that the TCA was “far from the finished article: Britain and the EU will carry on talking for months or years to fill in the gaps in the treaty, including on financial services and rules to allow professionals to work across borders.”²⁴

The Memorandum of Understanding

¹⁶ Article 128

¹⁷ Articles 129, 137, 138

¹⁸ Article 189

¹⁹ Article 186

²⁰ Article 184

²¹ See the commentary of law firm White & Case, [Implications of the EU-UK Trade and Cooperation Agreement for Financial Services](#), 12 January 2021

²² See Financial Times, [Inside the Brexit deal: the agreement and the aftermath](#), 22 January 2021

²³ City A.M., [Chancellor Rishi Sunak: The City could be set for a post-Brexit Big Bang 2.0](#), 11 January 2021

²⁴ Financial Times, [Inside the Brexit deal: the agreement and the aftermath](#), 22 January 2021

Accompanying the TCA were a number of [Joint Declarations](#), including one on “Financial Services Regulatory Cooperation”.²⁵ Under this Joint Declaration, the UK and EU agree to “establish structured regulatory cooperation on financial services” which will allow for:

- bilateral exchanges of views and analysis relating to regulatory initiatives and other issues of interest;
- transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions; and
- enhanced cooperation and coordination including in international bodies as appropriate.

The UK and EU committed to agreeing a Memorandum of Understanding (MoU) by the end of March 2021 to establish the framework for cooperation on the points above. This would include how to move forward with equivalence determinations.

Expectations for the MoU were mixed. Barney Reynolds, a partner at law firm Shearman & Sterling, said the memorandum “is likely to provide a lot of the comfort that the City is wishing for”, claiming that for some firms the MoU could provide “even greater access to sell in the EU than when Britain was part of the single market.”²⁶ City A.M., however, reported on 6 January 2021 that “any agreement struck will only provide minimal access to EU markets at the absolute best and will more likely only set up a method for UK and EU regulators to swap information on decisions.”²⁷

The UK Government announced on 26 March 2021 that the MoU was agreed (with just “formal steps” remaining until signature), saying it will establish a “Joint UK-EU Financial Regulatory Forum” to serve as a platform for dialogue on financial services issues.²⁸ It reportedly envisages twice-yearly meetings between the UK Chancellor and EU financial services commissioner.

The Financial Times called it a “successful piece of EU-UK co-operation”²⁹ but noted that it “commits neither side to anything tangible”³⁰ and described it as “minimalist”.³¹

Impact

²⁵ See p2 of the [Declarations document](#)

²⁶ This is money, [City plans Brexit deal by March as talks start - and here's the woman behind the UK's masterplan](#), 3 January 2021

²⁷ City A.M., [City set for bare bones deal in crunch talks on financial services](#), 6 January 2021

²⁸ HM Treasury, [Technical negotiations concluded on UK – EU Memorandum of Understanding](#), 26 March 2021

²⁹ Financial Times, [UK and EU reach financial regulation deal in breakthrough on co-operation](#), 26 March 2021

³⁰ Financial Times, [How the UK and EU are quietly diverging when it comes to financial services](#), 3 June 2021

³¹ Financial Times, [Forget equivalence, the City of London needs a post-Brexit plan](#), 7 April 2021

It will obviously take time to determine the full impact of the Brexit deal on the UK's financial services sector. Nonetheless, there have been some early indications:

- The FT reported that on the first day of trading in 2021, €6 billion in EU share trading shifted from London to EU marketplaces such as Madrid, Frankfurt and Paris. While share trading is not the most lucrative business, the FT said the shift would mean lower tax receipts for the UK Government;³²
- The FT reported in February 2021 that Amsterdam had surpassed London as Europe's largest share trading centre. EU-based financial institutions needed to move away from trading in London because the EU had not recognised UK exchanges and trading venues as being "equivalent";³³
- According to think-tank New Financial, about 7,500 jobs have moved to the EU since the 2016 referendum, while banks and asset managers have transferred more than \$1tn in assets, about a tenth of the total;³⁴ and
- City A.M. reported in June 2021 that (according to data from EY) two in five financial services firms have moved or plan to move some UK operations and/or staff to Europe. However, many employees would reportedly rather quit their jobs than be relocated to cities in the EU.³⁵

³² Financial Times, [EU share trading flees London on first day after Brexit](#), 4 January 2021

³³ Financial Times, [Amsterdam ousts London as Europe's top share trading hub](#), 10 February 2021

³⁴ Financial Times, [How the UK and EU are quietly diverging when it comes to financial services](#), 3 June 2021

³⁵ City A.M., [City bankers would rather quit than move to European capitals following Brexit](#), 6 June 2021

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