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The benefits of open markets

In the 18th century the Scottish economist Adam Smith said 'in general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so'. When we focus on the minutiae of the issues facing the financial services sector, as most of us attending the Eurofi conference will do from time to time by necessity, we can lose sight of the real-world impacts of the decisions and choices that we make. Though now several centuries in vintage, Smith's words have never been more relevant. We live in an increasingly globalised world, one in which the trade in financial services and the flow of capital across borders provide tangible benefits to the firms and people of Europe, indeed to the growth of our economy in general. Financial markets provide competitive insurance for our firms and citizens, investment and loans for our industries, and enable people to provide for their and their families' futures through funds and pensions. Fragmentation of these markets would reduce the flow of investment and increase the costs of finance for firms and citizens.

It is clear then that open markets and cross-border trade in financial services benefit individuals, firms large and small, and the health of the economy more widely. It is essential that across the world, including in Europe, that legislators and supervisors keep these facts at the forefront of our thinking as we develop the regulatory regimes of the future. The world around us may be changing rapidly, developments in fintech, cyber and cryptoassets certainly present a challenge for firms and regulators alike, but they also present great opportunities. We must seize these opportunities together, ensuring that we develop consistent regulatory regimes that continue to enable rather than fragment our open markets and provide an increasingly resilient and stable system.

The work of international organisations such as the Financial Stability Board (FSB) is vital in this regard. At the request of the G20 the FSB continues work to complete the implementation of post-crisis reforms, seeking to build a resilient financial system grounded in agreed international standards that facilitates trade and sustainable economic growth. A key part of this work is evaluation and assessment of the effects of those reforms, examining the effects on the structure and functioning of our global financial system. In this context, the FSB are undertaking specific work on market fragmentation under Japan's G20 Presidency, assessing the cross-border consistency of reforms and exploring issues around market fragmentation, how it can emerge, and its potential impact. The aim is to identify tools that can be used to address the risk of market fragmentation arising.

The UK is host to an open, internationalist, and diverse financial centre, and the resilient and credible regulatory regime in the UK is what underpins this. The UK worked with the rest of Europe on the post-crisis reforms and we will continue to do so in the future, working together to strike the right balance between protecting stability and driving innovation, ensuring that we continue to foster the competitiveness of the European economy. That includes maintaining our commitment to work with our partners through organisations like the FSB, Basel and IOSCO and pursue what the British Chancellor of the Exchequer has called the regulatory "race to the top".

The EU and the UK share a commitment to financial stability and high standards for the financial services sector, and a confidence in the value of open markets. In the future, trade between us in financial services will be managed through equivalence frameworks. It is clear and without question that this change in the regulatory architecture presents challenges. But it is not an inevitability that we must face damaging levels of fragmentation and friction in our relationship. It is a false choice to say that we must choose between protecting our respective financial stability and maintaining open trade. Are our third country equivalence regimes in need of improvement? Without a shadow of a doubt. Are we capable of getting this right and putting in place co-operative regimes that will enable continuing and vibrant trade in financial services to the benefit of Europe's citizens and firms? Absolutely. ●