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# Brexit and the changing landscape of EU financial markets

2020 has so far been a year that has been dominated by the impact of the global coronavirus pandemic, which has unprecedented repercussions for financial markets, the broader financial system and economies. One would be forgiven for overlooking the fact that back in January, Brexit was viewed by many as being the biggest challenge for the year ahead. In reality, the scale of the Brexit challenge has not changed, but the difference is that it is now taking place in the midst of a global pandemic crisis with far-reaching consequences, including for our financial markets.

On 31 December 2020, the UK's transition period after Brexit will come to an end. At the moment, we do not know how an agreement on the future partnership of the UK and EU will look, or even if one will be in place by the end of the year. However, we know that the landscape of the financial services sector will inevitably change significantly with the largest financial market leaving the EU single market.

With Europe's largest financial centre leaving the Union, the question of how this affects EU financial market policies needs to be answered. While the EU's equivalence framework is a very useful tool that can provide benefits and access to the EU for some third-country firms, it obviously does not replicate the advantages of the single market. It only covers some specific areas where third-country firms can directly access EU markets, for example, in the area of central clearing counterparties (CCPs).

Moreover, the extent to which equivalence will be granted to the UK is not determined yet, as these decisions are subject to a positive assessment of the UK's legal, regulatory and supervisory framework. This uncertainty only underlines the need for the EU to re-enforce its efforts to build and develop its own capital markets, which is why support for the ambitions of the Report of the High-Level Forum on the Capital Markets Union (CMU) is key. A successful CMU will help mobilise investments throughout the EU, lower the costs of funding, offer new opportunities for savers and investors, and make the financial system more resilient.

At the same time, the EU will need to remain an open and globally integrated financial market, meaning that the EU and third countries, including the UK, will together need to continue to contribute to the smooth functioning of global financial markets, and so avoid fragmentation and ensure financial stability. One area identified by the EU as presenting potential financial stability risks as a result of the UK's withdrawal is in relation to the central clearing of derivatives. To address these risks, the European Commission has announced that it will adopt a time-limited equivalence decision for UK CCPs, and that they may continue providing clearing services in the EU after the end of the transition period.

With the third-country landscape evolving, it is imperative that appropriate supervisory oversight is in place. EMIR 2.2, and the changes introduced by the Investment Firms Regulation for third-country investment firms, are examples of how supervisory models can be adapted to face new challenges presented by non-EU firms that play a significant role in EU financial markets. Within the EU, the current supervisory model combines both EU and national level responsibilities, with most day-to-day supervision of capital markets conducted at national level. Within this mixed model it is essential that supervisory activities regarding third-country firms is conducted or coordinated at EU level.

Third-country firms have typically quite some discretion regarding their choice of location, which increases the risks of regulatory arbitrage. In addition, differences in supervision of third-country firms results in barriers and undermines the single market.

Finally, above all else it is vital that constructive UK-EU supervisory relationships are maintained between regulatory bodies to achieve common objectives like stability, investor protection and orderly markets. ESMA has already established cooperation agreements with its UK counterparts to achieve this and will seek to maintain close supervisory relationships with these authorities in the years to come. ●