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Nearly 4 months after Brexit: where do we stand and what way forward for the EU and UK?

The Trade and Cooperation Agreement (TCA) between the EU and the UK covers financial services in the same way that financial services are generally covered in the EU's other free trade agreements with third (non-EU) countries. The TCA provides for limited market access commitments for cross-border provision of financial services and preserves the sovereignty and regulatory autonomy of the EU (and the UK), in line with the Commission's mandate.

A regime change took place in financial services on 1 January 2021. UK firms have lost their passporting rights and are now treated as third-country firms for the provision of financial services in the EU. Market fragmentation is an unfortunate, but inevitable consequence of the UK decision to leave the EU and the Single Market. Nevertheless, the transition in financial services has gone smoothly. Market participants were prepared. While there has been some necessary adaptions, there has been no volatility or disruption.

The Agreement last December brought to an end a four-year period of preparations and negotiations. However, for financial services, 2021 is the start of a new, complex period. The EU-UK relationship in financial services will have to be developed over time. While Brexit is unfortunately a fragmenting event, we will strive for close cooperation with the UK. As set out in the Joint Declaration on Financial Services Regulatory Cooperation, annexed to the TCA, our aim is to establish a durable and stable relationship between the EU and the UK. Our bilateral relationship with the UK will be based on voluntary regulatory cooperation outside of the TCA structures.

The purpose of a regulatory cooperation framework will not be to restore market access rights that the UK has lost, nor to constrain the EU's unilateral equivalence or regulatory process. Equivalence is an area which we will discuss with the UK – progressively, taking into account the UK's regulatory intentions, on a case by case basis. The EU is an open financial jurisdiction. We use equivalence as a tool to manage interactions with third countries, including the UK. Our third-country regimes allow EU consumers and investors to benefit from the services provided by third-country firms, whilst ensuring adequate risk management. When it comes to UK equivalence decisions, the EU, just as we do with all third countries, must consider our own interests. Given the close links between the EU and UK financial systems, our risk-based and proportional approach needs to be particularly thorough in order to capture, across all sectors, all potential risks for financial stability, market integrity risk, investor protection and the level playing field. It is clear that there cannot be equivalence and wide divergence.

Over time, there is scope for a broad and deep relationship with the UK in financial services. There are many areas of common interest in regulatory developments, such as risks to financial stability, digital finance, or new issues like green finance where the UK will play an important role with its presidency of the COP26. I would also anticipate close cooperation with the UK at international level in the FSB and other standard setting bodies.

The past four months has marked the beginning of a new phase in the trade of financial services between the EU and the UK. Given the level of interconnectedness between the two jurisdictions, it is essential that we get the basis for our new relationship right from the outset. I remain hopeful that, over time, through cooperation and trust, we will manage to build a stable and balanced relationship with the UK in the area of financial services. Let's not forget that London will remain a very important global financial centre on our doorstep, and although a third country, the UK will remain one of our main partners in the area of financial services. It will be important for the EU to strategically manage the significant level of interconnectedness between the two jurisdictions so as to maximise the benefits of our new relationship while, at the same time, avoiding any element of dependency that would translate into reduced autonomy for the EU.