

City Future: Regulatory Divergence and Markets of Opportunity - 26 May 2021

Current situation

A trade and cooperation agreement was signed between the UK and the EU earlier this year, but there was little mention on financial services. Despite agreeing in principle to a memorandum of understanding on the topic, in the short term, it is unlikely that any progress will be made on equivalence, financial passport and access to the EU market.

Although the Covid pandemic has made difficult to provide exact figures, it is becoming clear that the City of London has not been materially losing talent since the end of the transitional period. Rather data seems to point to a limited reduction in headcount. This is most likely due a combination of two factors. The first is the absence of an obvious alternative to the City of London in the EU. The second is that, although costly, it is still possible for UK-based firms to obtain licenses to operate in the EU through various means.

Opportunities for the UK and the City of London

The UK has an opportunity with Brexit to be at the forefront of the global effort to regulate new fields in finance such as crypto-currencies, and therefore be hugely influential at setting the global standards in such fields.

Brexit is unlikely to lead to broad divergence from the EU on the matter of financial regulation. There are supra-national initiatives and international agreements to respect and the UK Government has made it clear that it does not aim to change regulation for the sake of it. There are, however, several fields where surgical divergence from EU regulations could be beneficial such as asset management, ESG (Environmental, Social & Corporate Governance) and fintech.

Finally, the Covid pandemic has revealed the depth of expertise in fields such as data science, fintech etc. outside of London and the South East. The City of London has an opportunity to draw from this pool of talent to make the UK financial services industry more competitive and therefore more attractive to foreign investment.

Key takeaways

The key takeaways from the event were as follows:

- The UK Government should continue consulting key players in the financial services industry to have proportionate regulation that maintains high standards and that is not unduly cumbersome for the UK to continue to be an attractive country to conduct business.
- There are several areas that would benefit from regulatory divergence such asset management, ESG and fintech. In addition, the UK could lead the global effort to regulate fields such as crypto-currencies and institutional investment. The UK Government should work with the private sector to identify the opportunities and strike the right balance between protecting the consumer and remaining attractive to businesses.
- It is essential to have an immigration policy that makes the UK an attractive and welcoming country to the skilled workers needed in the financial service industry.
- Currently in the UK, expertise and duties related to the financial service industry are spread among different teams across multiple departments (including HM Treasury and Department of International Trade). It would be valuable to explore ways of further consolidating this.