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# Unlocking Growth Through a Stronger UK-EU Financial Services Partnership

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# Foreword by Marsha de Cordova MP & Sandro Gozi MEP, Co-Chairs, UK-EU Parliamentary Partnership Assembly

## The United Kingdom and the European Union are bound together by geography, history, and a deeply interwoven economy.

The UK-EU Parliamentary Partnership Assembly exists precisely to give democratic voice and political momentum to that relationship. Established under the Trade and Cooperation Agreement, the Assembly brings together Members of Parliament and Members of the European Parliament to identify shared priorities and build trust. In an era of geopolitical uncertainty that parliamentary dimension has never mattered more.

Financial services are a key part of what makes the UK-EU partnership work. The sector employs millions of people across both jurisdictions, underpins the investment flows that fund businesses and infrastructure, and provides the infrastructure through which trade and commerce are conducted.

Yet the potential of this financial services relationship remains only partially realised. The absence of a formal framework governing market access and regulatory cooperation between the UK and EU in financial services is a missed opportunity on both sides. Businesses face duplicated compliance burdens. Capital does not flow as efficiently as it might.

This report sets out a long-term vision for a more productive, more stable and more mutually beneficial UK-EU financial services relationship. It is a vision grounded in shared economic interest: both the United Kingdom and the European Union have placed growth at the heart of their policy agendas. Collaboration between partners only adds to this agenda, unlocking potential and boosting global competitiveness.

A deeper financial services partnership is one of the most direct routes available to both sides for achieving this goal. Investment needs to be mobilised at scale to fund the green transition, to build resilient supply chains, to support defence and security capacity, and to back the technology and innovation that will deliver prosperity. This can only be done if capital markets on both sides of the Channel are working well and working together.

This report is a valuable contribution to this debate to parliamentarians, policymakers, and practitioners on both sides. The Parliamentary Partnership Assembly has a vital role to play in maintaining the political will to consider its recommendations and strengthen the UK-EU relationship in such a vital sector for our economies.

**Marsha de Cordova MP**
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UK-EU Parliamentary Partnership Assembly |
Chair, UK Delegation

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# Executive Summary

Ten years after the Brexit referendum, Europe's geopolitical and economic landscape has changed significantly, and with it comes a real opportunity to reset the UK-EU relationship in financial services. This shift is recognised at the highest levels, with Germany's Vice Chancellor and Finance Minister, Lars Klingbeil, calling for closer cooperation with partners such as the UK and Canada amid an increasingly unpredictable global environment. Against this backdrop, the case for a more strategic UK-EU partnership in financial services is both timely and compelling.

The UK and EU remain part of a well-connected financial ecosystem. In 2024, the UK exported £33.7bn in financial services to the EU. The EU exported €35.7bn to the UK. Both figures have grown by more than 50% since the Brexit referendum. Over 80% of European derivatives and foreign exchange trading clears through London. A fifth of EU-domiciled fund assets are managed in the UK. Both markets face a joint growth challenge and have significant investment needs.

Yet this deep interdependence coexists with a bilateral relationship that is institutionally below where it could and should be. There are positives, such as the Joint EU-UK Financial Regulatory Forum (EU-UK Forum) which meets twice a year and is a useful information-sharing body. Yet, financial services have not featured as a strategic item at the annual UK-EU Leaders' Summit and thus not yet received the necessary focus to unlock its full cross-border potential. The broader political reset underway presents a genuine opportunity to change the terms of this relationship. Some policy choices since Brexit, whether arising from deliberate design or the unintended consequences of parallel regulatory reform, impose costs on businesses and consumers that a more coordinated and collaborative approach could avoid.

This report sets out a vision for a genuinely strategic UK-EU partnership in financial services, which would benefit institutions headquartered not just in the UK, but also those in the EU and more globally as well. This is not a call for reintegration or reverse convergence into the EU Single Market. The EU is a sophisticated, well-resourced bloc pursuing its own ambitious agenda, while

the UK, likewise, has its own regulatory framework, policy priorities, and global commitments given the international nature of its financial market, where financial services policymaking is made through a truly international lens.

This report also proposes concrete, phased steps to get this vision. It is presented in a spirit of genuine partnership. The UK is a global financial centre, with deep bilateral relationships spanning the United States, Switzerland, Singapore, the Gulf, and the Indo-Pacific, and this broader international role must be preserved and strengthened. Each of these partnerships matters, and none diminishes the importance of the others. The case for closer UK-EU cooperation does not conflict with that global orientation – it reinforces it. A stronger, more coherent European financial ecosystem benefits every participant in it, and the UK's role as Europe's pre-eminent global gateway is an asset for the UK as much as for every customer and client it serves globally.

Our roadmap is a three-stage plan, deliberately sequenced to build confidence and political capital progressively, starting with practical steps that are achievable now and building towards a long-term architecture that would support Europe's collective financing needs. This is not about undoing Brexit or reversing established realities. We are not seeking a return to the EU Single Market nor are we proposing measures to undermine either jurisdiction's regulatory autonomy. Our proposals only require the shared recognition that two deeply interconnected economies, with common regulatory traditions and shared exposure to global challenges, achieve better outcomes for their firms, their consumers, and their strategic ambitions when they engage with each other purposefully and consistently.

It is a joint opportunity, and it calls for joint ambition.

Our message is simple: by working together, the UK and EU can shape global standards more effectively, amplify their collective influence in a highly mobile and competitive sector, and build a financial ecosystem that is stronger, more innovative and better equipped to support Europe's long-term prosperity. This report provides the concrete, actionable proposals needed to begin that work today.

## Roadmap for a Renewed UK-EU Financial Services Relationship

| Proposal | Description | Principal Benefits |
|---|---|---|
| **Short-Term** | | |
| **Maximise Value of UK-EU MoU on Financial Services Cooperation** | Reorient the joint UK-EU Forum from simple information sharing to proactive coordination on new initiatives. This would be operationalised by establishing technical working groups. | This would deliver greater regulatory coordination and improved interoperability between the UK and EU's respective regimes. This process would build the trust necessary for more ambitious future cooperation. |
| **A New Model for Cooperation – Harnessing the UK-EU Regulatory Learning Loop** | This proposal is to formalise the "regulatory learning loop" where the UK and EU act as real-time policy laboratories for each other. It would be operationalised by establishing a dedicated standing agenda item within the EU-UK Forum for the systematic exchange of insights and lessons from their respective regulatory reforms. | This would foster more effective regulation on both sides of the Channel without requiring complex legal agreements. It makes the existing organic process of mutual learning more explicit and structured, allowing each jurisdiction to benefit from the other's innovations. |
| **Embed a Financial Services Agenda in the annual UK-EU Leaders' Summit** | The goal is to make financial services a dedicated, strategic agenda item at the annual UK-EU Leaders' Summit. This would provide top-down political direction and mandate the UK-EU Forum to pursue specific joint actions. | This would elevate the political visibility of the sector and ensure high-level commitments translate into effective engagement at the working level, with a view to removing barriers to cross-border trade. |
| **Non-Time-Limited CCP Equivalence – a Pillar of Pan-European Financial Stability** | Non-time-limited equivalence decision for UK central counterparties, whose current temporary recognition is set to expire in June 2028. This would be underpinned by the robust, existing dual-supervisory model where ESMA has direct oversight powers over "Tier 2" UK CCPs. | The primary benefit is the removal of a major source of systemic risk and the recurring "cliff-edge" scenario for the industry. It would safeguard EU financial stability by avoiding market disruption and prevent the fragmentation of liquidity that traps capital. |
| **Enduring Data Adequacy Decision – Securing the Digital Backbone of UK-EU Finance** | This proposes to remove the sunset clause from the EU's data adequacy decision for the UK, which is currently set to last until the end of 2031. The decision is based on the fact the UK's data protection regime is already deemed "essentially equivalent" to the EU GDPR. | A non-time limited decision would remove significant legal uncertainty, reduce the compliance costs of maintaining contingency plans, and unlock long-term investment in digital infrastructure. It provides the legal certainty needed for the seamless cross-border data flows that are integral to modern banking. |

| Proposal | Description | Principal Benefits |
|---|---|---|
| Medium-Term | | |
| **UK-EU Services Mobility Agreement to Unleash Talent** | This proposes a bespoke agreement, modelled on the UK-Swiss Services Mobility Agreement, to make cross-border service provision easier for skilled professionals. It would allow UK and EU professionals to work in each other's jurisdictions for a defined period (e.g., 90 days) without needing a work permit. | The primary benefit would be to boost business and trade by reducing administrative friction and the significant opportunity cost of current travel requirements. It would make it easier for firms to deploy talent and expertise where it is most needed across Europe. |
| **The CRR Equivalence Gap – A Pragmatic Case for Targeted Equivalence** | This proposes seeking a targeted equivalence decision under the EU's Capital Requirements Regulation. This would address technical distortions that currently force EU banks to apply higher, less risk-sensitive capital requirements to their exposures to UK institutions and on lending secured against UK property. | This would directly benefit EU banks by allowing them to apply more appropriate risk-weights, freeing up capital, increasing efficiency, and levelling the playing field with other equivalent jurisdictions. It is a pragmatic, technical fix that would reduce unnecessary costs and friction for EU-based institutions. |
| **A Pragmatic and Targeted Approach to Equivalence in Other Areas** | This proposal advocates for a targeted, technical, and incremental approach to equivalence, moving beyond the current all-or-nothing political stalemate. Using the regulation of ESG Ratings Providers as a key example, it recommends establishing a working group under the EU-UK Forum to identify a pipeline of specific areas where granting equivalence would reduce friction and is of clear mutual benefit. | This pragmatic approach would reduce unnecessary costs and operational frictions for firms by focusing on specific, evidence-based problems rather than broad political debates. By delivering tangible wins in areas of clear mutual interest, this process would build regulatory confidence and political goodwill incrementally, paving the way for more ambitious cooperation in the future. |
| **UK-EU Member State Financial Innovation & Regulatory Collaboration Framework** | Establish a flexible cross-border collaboration mechanism combining a "competitiveness lab" and regulatory sandbox approach, enabling the UK and willing EU Member States to jointly design and pilot innovative financial services initiatives. It would allow firms and regulators to test solutions in controlled, real-world cross-jurisdictional environments. The ultimate objective is to progressively evolve these initiatives into a permanent and institutionalised pillar of the UK-EU financial services relationship over time. | This approach enables pragmatic, project-based progress through a "coalition of the willing", while allowing firms to test innovative products in live, supervised environments to de-risk deployment and gain legal certainty. In parallel, it fosters mutual regulatory learning and builds deep, technical-level trust between supervisory authorities from the bottom up, creating a strong foundation for more ambitious future cooperation. |

| Proposal | Description | Principal Benefits |
|---|---|---|
| **Long-Term** | | |
| **A UK-EU Financial Services Agreement** | This proposes a bespoke bilateral treaty based on the principles of the UK-Switzerland Berne Financial Services Agreement. The agreement would be founded on outcomes-based mutual recognition, which respects the regulatory autonomy of both parties while facilitating cross-border trade. | This would create an easier, more predictable, and stable framework for UK and EU firms to access each other's markets, enabling cross-border trade and growth. It would move the relationship beyond politically uncertain equivalence regimes and reduce operational complexity by allowing firms to conduct business seamlessly across boundaries. |
| **A UK-EU-Led Pan-European Capital Markets Union** | This is a vision to create a deeply integrated capital market ecosystem that includes the UK, EU, EEA, and EFTA nations. The framework would enable deeper market access and establish a stable, predictable structure for cross-border trade that complements each jurisdiction's domestic market. | It would foster a complementary, rather than competitive, relationship between the UK and EU financial services industries and reduce operational friction between firms' UK and EU operations. Market participants would gain enhanced access to financial services from both the UK and the EU, fostering greater competition, innovation, and better outcomes for businesses and consumers. |

In preparing this report, we have conducted targeted research, including desk-based analysis, and interviews with a broad range of stakeholders including EU, UK and international banks, think tanks, Embassy representatives and trade associations. UK Finance's International Affairs Committee, which comprises senior member representatives, also shaped the report's proposals. A list of contributors to the report is included in Appendix 1.

A glossary of defined terms used in this document is provided in Appendix 2.

# Introduction: An Ever-Changing World Demands a New Partnership

The strategic context for UK-EU cooperation has changed markedly since 2016. This shift has helped catalyse a welcome political reset, creating a timely opportunity to include financial services at the core of the renewed agenda.

## A Changing World

The world has changed significantly since 2016. The Russian invasion of Ukraine, shifting US foreign geopolitics, and acute economic pressures have amplified the need for closer cooperation between the UK and EU on strategic priorities. Shared challenges, from defence financing to the urgent need for capital to fund the green and digital transitions, demand coordinated responses.

This new context has helped foster a welcome strategic-level political reset between the UK and EU. The establishment of an annual UK-EU Leaders' Summit in 2025 and the shared desire for a more strategic partnership have generated fresh momentum towards a genuinely renewed UK-EU relationship. This provides a real opportunity for the UK and EU financial services industry to harness this momentum and deliver tangible, lasting improvements in their bilateral relationship.

> *"This Labour Government will be defined by rebuilding our relationship with Europe. By putting Britain at the heart of Europe. Because standing shoulder to shoulder, with the countries that most share our interests, our values and our enemies, that is the right choice for Britain".*
>
> **UK Prime Minister Sir Keir Starmer, 11 May 2026**[1]

## Including Financial Services at the Core of the UK-EU Strategic-Level Reset

UK-EU financial services relations have progressed steadily since Brexit. The EU-UK Forum is now operational, the European Banking Authority (EBA) and other European Supervisory Authorities confirmed the UK's confidentiality regime as equivalent in early 2026, and both sides are coordinating their move to T+1 settlement. These are all welcome developments, but they remain largely technical in nature rather than part of a broader strategic framework. **To date, financial services have not been included in the strategic UK-EU reset. Now is the moment for that to change; not only to recognise the sector in its own right, but also its role as a critical enabler of growth, investment and economic resilience for businesses and consumers across the UK and EU**.

Our roadmap outlines a clear and pragmatic set of mechanisms through which renewed political momentum can be converted into lasting improvements in the UK-EU financial services relationship as the relationship moves into its next phase.

## Recognising the Global Nature of Financial Services

Renewing our sector's relationship with the EU should be understood in a broader strategic global context. We are not seeking preferential access to our nearest neighbour. Nor is this about a return to the EU Single Market, or wholesale or dynamic alignment of the UK's financial services rules with those of the EU (which we do not support). Rather, the objective is to ensure that businesses and consumers are able to access not only their own well-developed financial market ecosystem, but also the wider international financial ecosystem in which the UK plays a central role. The UK's financial centre employs approximately 2.5 million people and provides a wide range of financial services to clients across every major global market, including the EU. It is a global hub for foreign exchange, derivatives and capital markets, with its international strength rooted in the breadth and depth of its relationships with major jurisdictions across the world.

Where both sides are pursuing complementary goals and the costs of unnecessary fragmentation fall on both sides, the case for working together more efficiently as trusted partners is compelling, particularly in light of the global nature of the financial markets and our shared challenges.

# 01 The Case for a Deeper Partnership

A renewed UK-EU partnership in financial services is not a matter of sentiment, but of strategic economic necessity. The data underscores a fundamental reality: that the UK and EU financial markets remain deeply interconnected. This can provide a powerful engine for growth and resilience that, if properly cultivated, can help both jurisdictions meet their shared challenges at a time when significant public and private financial capital is required to address them.

Conversely, allowing this relationship to fray through inaction or fragmentation (whether as a conscious policy choice or as an unintended consequence) imposes real and growing costs on businesses and consumers on both sides of the Channel. It is worth being clear about what fragmentation means in this context. Some arises as an unintended consequence of parallel regulatory evolution of two sophisticated systems developing independently. But some fragmentation is the result of deliberate policy choices, designed to restrict third-country market access or build domestic capacity at the expense of cross-border efficiency (Article 21c of the EU Capital Requirements Directive (CRD), as amended by Directive (EU) 2024/1619 (CRD VI), is an example). The distinction matters, because the response is different. Both types impose costs on businesses and consumers across Europe, and both deserve to be addressed in the context of a genuinely strategic partnership.

Now is therefore the moment for the UK and EU to chart a new course in financial services cooperation and move decisively into the next phase of the relationship. The mechanisms to do so are already in place, and as the strategic-level UK-EU reset gathers pace, there is genuine momentum to act. This creates a timely opportunity to make full and effective use of the reset and the existing frameworks for our sector, enabling the UK and EU to work together in a more structured and strategic way, including through stronger coordination at the global standard-setting level.

## A Deeply Interconnected Market: The "Fact of Life"

The financial and economic ties between the UK and EU are vast, deeply reciprocal and highly interconnected. This integration sits at the core of Europe's financial ecosystem, underpinning capital formation, risk management and market liquidity across the continent.

Whilst distinct, the UK and EU financial services sectors function in many ways as a single, highly networked system across banking, capital markets, asset management and payments, reflecting decades of regulatory co-development and intertwined market structures. This depth of integration is a strategic asset for Europe and can act as a powerful engine for growth and resilience: it provides access to deep and liquid capital pools, global investors and sophisticated financial infrastructure that enhance Europe's ability to mobilise financing efficiently, manage systemic risk and support economic growth.

Preserving and strengthening this interconnectedness is therefore not a legacy concern, but a forward-looking enabler of the EU's and the UK's competitiveness, resilience and capacity to meet long-term strategic investment needs. This is demonstrated by the trade in financial services between the two jurisdictions.

**UK-EU Trade in Financial Services**

- In 2024, the UK exported £33.7bn in financial services to the EU (around one-third of its total), compared to £23.9bn in exports of financial services to the United States.
- In the same year, the EU exported €35.7bn in financial services to the UK, compared to €17.5bn in financial services exports to the United States.

The exchange of financial services between the UK and the EU has grown rather than diminished since the Brexit referendum:

- Exports of financial services from the UK to the EU increased by 50% between 2015 and 2024.
- Exports of financial services from the EU to the UK increased by 59% during the same period.[2]

Beyond these headline figures, the operational integration is woven into the fabric of the European financial market[3]:

- **Highly Integrated Banking System:** The cross-border flow of capital is substantial and multi-directional. In 2024, 8% of total bank lending by EU banks had a UK counterparty, while 12% of total lending by UK banks had an EU counterparty. Similarly, 9% of bank borrowing for both EU and UK banks involved a counterparty from the other jurisdiction.
- **London as a Global Capital Markets Hub:** The UK remains the primary gateway for EU corporates to access international capital markets. According to analysis by New Financial, the UK's capital markets overall are almost twice as deep as the EU's. Over 80% of derivatives and FX trading in Europe takes place in the UK, including two-thirds of all Euro-denominated derivatives trading.
- **A Shared Pool of Risk Capital for Innovation:** The UK and EU venture capital markets are deeply integrated, providing a vital source of funding for high-growth sectors. In the three years to 2024, 25% of all venture capital investment into EU companies involved a UK-based investor, while 28% of all venture capital investment into UK companies involved an EU-based investor. In both markets, these shares have significantly increased since the end of 2015.
- **A Pan-European Asset Management Ecosystem:** The UK is the centre of the European asset management industry, accounting for 40% of the continent's asset management activity. A significant portion of the assets of EU-domiciled investment funds, roughly one-fifth, are managed in the UK.

# The Mutual Benefit: Meeting Europe's Strategic Funding Needs

## Europe's Growing Financing Challenge & the Need for Private Capital

This deep integration of the UK and EU's financial markets is a powerful strategic asset for meeting the UK and EU's future ambitions. At a time when Europe faces a substantial investment gap across the green transition, digital transformation and security priorities, the ability to mobilise capital efficiently at scale has become a central economic imperative. Two recent landmark reports have articulated this challenge with clarity and urgency, underlining that deeper, more integrated European capital markets are not a "nice to have", but essential to sustaining growth and competitiveness in a rapidly changing global environment.

Enrico Letta's April 2024 report, "Much more than a market", diagnosed that the fragmentation of the Single Market, including the EU's finance, energy, and telecoms markets, was a primary cause of declining competitiveness, leading to an annual outflow of around €300bn in European savings to foreign markets.[4]

Building on this, Mario Draghi's September 2024 report on EU competitiveness delivered an even starker warning, concluding that without radical change to boost productivity and scale up innovative companies, the EU faces a "slow agony".[5]

Both reports converge on a central conclusion: the EU faces a huge investment gap, with the Draghi report estimating a minimum annual additional investment of €750-800bn is needed to achieve the bloc's economic transition targets, and the report clearly highlights that the scale of investment required cannot be met by EU financing sources alone. Therefore, mobilising private financing will be critical to successfully achieve these objectives.

## How UK-Based Firms Play a Key Role in Supporting Europe's Funding Needs

This is where UK-based firms, alongside EU-based firms, can play a uniquely important role in helping the EU deliver on these ambitions. Access to the UK market delivers clear benefits for EU businesses and consumers alike, drawing on the UK's deep and liquid capital markets, global investor base and concentration of specialist expertise. Together, these capabilities act as a force-multiplier for Europe's financing capacity; particularly in areas where scale, risk appetite and international reach are essential. London remains Europe's principal hub for capital markets activity, derivatives and foreign exchange, and the primary gateway through which corporates across Europe connect to global pools of capital.

This strength is underpinned by the UK's extensive international relationships with major financial centres worldwide; from the United States and Singapore to Switzerland and, critically, the EU itself. These strong networks reinforce the UK's role as a bridge between European markets and global capital, amplifying its strategic value to the EU as well as to other international partners.

## EU Stakeholders Recognise the Strategic Value of the UK Financial Sector

Many EU stakeholders recognise the importance of deep financial links with key partners, particularly the UK. They therefore emphasise the need to keep EU markets

open to UK-based financial institutions, enabling them to continue contributing to the EU's financing needs and to its broader competitiveness.

They also emphasise the importance of keeping EU markets open to trusted third-country institutions to sustain competitiveness and ensure that Europe has access to the funding needed to achieve its strategic priorities. The European Banking Federation, an association which brings together national banking associations from across Europe (the vast majority of which are EU-based), says that UK-based financial institutions offer a broad range of high-quality financial services and products to EU-based businesses and consumers, and that they play an important role in supporting each other's economies.

*"...given the depth of financial ties between the EU and key third countries, such as the UK and Switzerland, financial institutions operate alongside one another to offer a broad range of high-quality financial services and products to EU-based business and consumers, ensuring level playing field and fair competition. Together, they play an important role in supporting each other's economies, upholding the core principles of the single market while safeguarding financial stability.*

*It is therefore important that, as the EU advances its regulatory reform agenda and develops its financial markets, it remains open to third-country based financial institutions so that EU market participants can continue to benefit from the contributions outlined above. Third countries are deeply committed to the EU's goal of building a framework that attracts external investments to support Europe's long-term competitiveness and the financing of its dual green and digital transitions".*

**European Banking Federation response to the European Commission's Targeted consultation on the competitiveness of the EU banking sector[6]**

# The Opportunity Cost of Inaction & Fragmentation

While the benefits of deepening the UK-EU financial services relationship are clear, the costs of failing to do so result in continued and potentially worsening fragmentation.

A prime example is the impact on cross-border payments. The loss of UK-EU payments integration following Brexit led to a significant increase in interchange fees on cross-border card transactions, imposing direct costs on EU businesses and consumers. This demonstrates how quickly regulatory divergence can translate into tangible economic friction.

More broadly, a 2025 analysis by New Financial and the City of London Corporation quantified the potential opportunity cost of the post-Brexit investment chill. It calculated that had investment patterns remained at 2015 levels, the EU could have attracted an additional €260bn from UK debt investors, while the UK could have attracted an additional £580bn in equity and debt investment from EU investors .[7]

This represents a significant pool of foregone capital that could otherwise have been deployed into infrastructure, innovation and growth across Europe, illustrating that fragmentation is not a theoretical concern, but one with real and measurable economic consequences on both sides of the Channel.

## The Cost of Fragmentation

Certain aspects of Europe's financial market fragmentation reflect conscious policy choices, often driven by priorities around sovereignty and views of overreliance on third-country jurisdictions, whilst it also arises as an unintended consequence of parallel regulatory and supervisory evolution on each side of the Channel.

Regardless of whether fragmentation is intentional or not, the outcome is consistent: increased complexity, duplicative compliance requirements and reduced efficiency across the European financial system. These effects extend beyond the sector itself, contributing to higher financing costs, diminished liquidity and a less efficient allocation of capital across the wider economy. The impact is therefore widely shared. While internationally active firms bear the immediate burden, the consequences pass through to corporates seeking investment, to savers and pension holders, and ultimately to citizens who depend on well-functioning financial markets to support growth. Fragmentation thus carries a tangible opportunity cost for both jurisdictions, reinforcing the need for a more deliberate approach to the UK-EU financial services relationship.

# Strong Scope for Mutual Learning

As the UK and EU advance their respective financial services reform agendas, there is clear scope for mutual learning that can benefit both markets. Policymakers and regulators in both jurisdictions closely monitor developments on the other side of the Channel and, where appropriate, draw on these experiences when shaping their own proposals. In some cases, it can result in one jurisdiction choosing to go further or move faster than the other. This dynamic demonstrates that regulatory divergence does not preclude constructive influence; rather, sustained dialogue and transparency can support better-designed, more effective regulatory outcomes on both sides of the Channel.

# The Momentum Driving Deeper Cooperation is Already Here

## Momentum Behind the Strategic-Level Reset

The UK Government has actively sought to reset UK relations with the EU to improve diplomatic, economic and security cooperation. In May 2025, at the first annual UK-EU Leaders' Summit, the UK Prime Minister Sir Keir Starmer announced a new Strategic Partnership with the EU, underpinned by a Common Understanding. In addition, in the King's Speech on 13 May 2026, the Government announced plans to introduce a new European Partnership Bill, which would make it easier to implement new deals agreed with the EU.[8]

The renewed sense of cooperation at the political level reflects a recognition that the international context has changed significantly in recent years. Heightened geopolitical uncertainty, including the Russian invasion of Ukraine and the Middle East conflicts, has underlined the importance for the UK and EU to deepen cooperation with key allies, in particular around coordinated defence strategies and defence spending. At the same time, shifts in the global policy environment, including changes in the approach of key international partners to trade, defence and security, have reinforced the need for the UK and EU to work more closely together to safeguard shared interests. It is against this backdrop that the geopolitical situation is shaping Europe's strategic priorities, creating a strong rationale for deeper UK-EU engagement.

Cooperation between the UK and EU has now extended beyond those more established areas into new areas, for instance, with the UK and EU agreeing to launch formal negotiations on UK participation in the European Innovation Council Fund, a key vehicle for financing deep-tech start-ups and high-growth companies, building on the UK's successful association to the Horizon Europe programme.[9]

*"We want to be more ambitious. Closer economic cooperation. Closer security cooperation. A partnership that recognises our shared values, our shared interests, and our shared future. A partnership for the dangerous world that we must navigate together. A world where this Government will be guided, at all times, by the interests of the British people".*

**UK Prime Minister Sir Keir Starmer, 1 April 2026**[10]

## Including Financial Services in the UK-EU Strategic Reset

UK-EU financial services relations have progressed steadily since Brexit. The EU-UK Forum takes place on a bi-annual basis, and in early 2026 the EBA and other European Supervisory Authorities confirmed the UK's confidentiality regime as equivalent, whilst both sides are coordinating their move to T+1 settlement – taking a truly pan-European approach. These developments demonstrate that constructive, technically grounded cooperation is both possible and beneficial, particularly where there is a clear mutual interest in avoiding market disruption and regulatory arbitrage.

This progress has been enabled by authorities and stakeholders on both sides of the Channel having worked to rebuild trust. Technical engagement, greater transparency around regulatory direction, and successful cooperation in discrete but important areas have helped re-establish constructive working relationships. This growing foundation of trust has made more substantive and forward-looking cooperation not only possible, but increasingly credible.

However, progress in the UK-EU financial services relationship to date has been largely incremental and technical, rather than embedded within a coherent strategic framework. Cooperation has mostly focused on managing immediate risks and maintaining baseline operability, rather than articulating a shared vision for how the UK and EU financial systems should work together over the longer term. This is reflective of financial services having been absent from the broader strategic UK-EU reset, despite the sector's central role in supporting growth, competitiveness and economic resilience across Europe.

Now is the moment for that to change, to convert deeper levels of trust into concrete, value-creating outcomes for firms and markets across Europe. The opportunity is here, right now. The political and economic conditions are aligned, and there is real momentum to move the UK-EU financial services relationship into a more strategic, forward-looking phase. The scale and urgency of Europe's shared challenges require a more deliberate and forward-looking approach to financial services cooperation, and the strategic-level reset provides a timely opportunity to do so.

Elevating financial services within this reset, recognising it not only as a sector in its own right but as a critical enabler of investment, growth and resilience across the European economy, is essential to delivering on these shared objectives. The structures to enable this are already in place, such as the annual UK-EU Leaders' Summit. There is therefore a clear and timely opportunity for both sides to use these existing mechanisms more effectively to embed financial services within the reset agenda.

Positively, the UK Government has emphasised its desire to strengthen relationships with all international partners, including the EU, and that this is a key focus of the Government's Growth and Competitiveness Strategy. The next steps are therefore for the UK and EU to build on this.

# Existing Cooperation Models Provide a Strong Foundation for Progress

The UK and EU are not starting their financial services relationship from a blank sheet. A number of cooperation models are already in place, and important precedents have been established. These arrangements demonstrate what can be achieved even within a relatively limited framework for engagement.

As the UK-EU financial services relationship enters its next phase, these existing models provide a strong foundation on which to build. They show that constructive, technically grounded cooperation is possible despite broader political complexity, and that early successes can create confidence and trust between authorities which enable them to work together for the benefit of the wider European market. Taken together, they act as a compelling precedent for a more ambitious and structured approach to UK-EU financial services cooperation; one that moves beyond managing frictions towards unlocking deeper, mutually beneficial outcomes.

## T+1 Settlement – A Model for Pragmatic UK-EU Regulatory Cooperation

The coordinated move to a T+1 settlement cycle is a landmark achievement in UK-EU regulatory cooperation and serves as a powerful model for future collaboration. The transition to settling securities transactions one day after the trade date is a complex undertaking, and a misaligned approach would have created significant market disruption, increased costs, and fragmented liquidity. The success in agreeing on a synchronised timeline demonstrates a new, pragmatic path forward for the UK-EU relationship.

### A New Model of Collaboration

Recognising the immense operational risks of a "T+1 island", where one jurisdiction moves ahead of the other, the UK and EU adopted a new, industry-led approach. Rather than engaging in top-down political negotiations, both sides established technical, industry-driven taskforces: the UK's Accelerated Settlement Taskforce and the EU's T+1 Industry Taskforce.

This model was successful for several key reasons:

- **It was industry-led and regulator-supported.** The taskforces were composed of market experts, from asset managers, banks, and infrastructure providers, who understood the deep operational complexities. Regulators participated actively, but empowered the industry to find workable solutions.
- **It focused on a shared technical objective.** The goal was clear, pragmatic, and non-political: to avoid the settlement fails, liquidity traps, and FX risks that a disjointed implementation would inevitably cause.
- **It was proactive.** The collaboration began early, allowing for a coordinated approach to be designed from the outset, rather than attempting to fix divergence after the fact.

The result was the joint commitment to a synchronised implementation date of 11 October 2027 for both the UK and EU. This decision was welcomed by industry on both sides of the Channel and stands as a powerful testament to what can be achieved when the focus is on mutual benefit and technical expertise.

### The Work Ahead: From Alignment to Implementation

While the date is set, the work is far from over. The focus must now shift from strategic alignment to detailed technical

implementation. Continued, deep collaboration through the established taskforces is essential to ensure a smooth and orderly transition. The key priorities are:

- **Developing Common Technical Standards:** A T+1 cycle compresses the time available for a host of post-trade processes. The taskforces must work to harmonise technical standards to avoid creating new cross-border frictions. This includes coordinating on:
  - **FX Management:** Ensuring processes are in place to execute and settle FX transactions in time for the T+1 deadline, especially for cross-currency trades.
  - **Corporate Actions:** Aligning on timetables and processes for handling dividends, stock splits, and other corporate events within the compressed cycle.
  - **Securities Lending:** Developing standardised protocols for recalling loaned stock in time for settlement.
- **Coordinating Industry-Wide Testing Protocols:** A change of this magnitude cannot be tested in isolation. A UK firm's systems may work perfectly, but the trade will fail if its EU counterparty is not ready. The taskforces must oversee the development of a synchronised, pan-European testing schedule, allowing firms and infrastructure providers across both jurisdictions to conduct end-to-end testing of the entire transaction lifecycle.

### The Blueprint for Future Cooperation

The T+1 experience provides a clear and repeatable technical-level blueprint for successful collaboration in other complex areas, such as the development of interoperable consolidated tapes, the regulation of digital assets, and the streamlining of transaction reporting.

The key lessons are:

1. **Depoliticise the Topic:** Ensure the topics are framed as technical, practical issues focused on market efficiency, financial stability and mutual economic benefit, rather than as proxies for broader political debates.
2. **Empower the Experts:** For technical issues, create joint, industry-led working groups under the umbrella of the EU-UK Forum.
3. **Define a Shared Objective:** Clearly articulate the shared benefits of cooperation and the mutual costs of different approaches where they are not beneficial.
4. **Act Proactively:** Engage early in the policymaking process, before different paths become entrenched.
5. **Build from the Bottom Up:** Foster technical relationships between regulators and industry experts to build the trust and confidence needed for more ambitious political agreements in the future.
6. **Mandated from the Top:** Ensure senior-level buy-in or mandation from within the relevant authorities to provide strategic endorsement or authorisation and support for detailed cooperation in areas where standards are being developed.

By taking this approach, the UK and EU can move their regulatory relationship from one mainly of reactive management of different approaches towards a more preventative and structured form of cooperation. Early, technically grounded engagement helps to reduce uncertainty for firms, minimise unintended fragmentation, and lower the cost of future adjustment for regulators and markets alike.

Over time, this approach would support the development of more interoperable regulatory frameworks, strengthen mutual trust between authorities, and provide greater predictability for internationally active firms operating across both jurisdictions. Taken together, these effects would contribute to a more efficient allocation of capital, enhanced financial stability, and a more resilient and competitive pan-European financial market, better equipped to support growth, investment and strategic priorities across the UK and EU.

## Collaboration on Supervising Critical Third Parties

Another recent example of cooperation between the UK and the EU is the MoU on cooperation, exchange of information and coordination of oversight activities of critical ICT third-party service providers located in the EU and the UK, which was signed by the UK and EU financial services authorities in January 2026.[11] The non-legally binding MoU establishes a framework for coordinating and sharing information on the oversight of critical third parties. Its core objectives are to:

- Manage systemic and confidence risks to each jurisdiction's financial sector
- Enable timely cooperation in normal and emergency situations, including incident reporting and joint responses
- Develop and share best practices for ICT third party risk management, controls, mitigation and incident response across financial sectors

The MoU contains a structured mechanism for supervisory cooperation between UK and EU authorities. It does not set joint supervisory expectations or commit either side to joint testing.

The MoU re-establishes structured regulatory cooperation in a critical area where cross-border risks are rising, strengthening resilience through coordinated oversight of ICT challenges. By offering greater clarity and predictability for global service providers, it is expected to enhance incident coordination and ensure more consistent supervisory practices.

Moreover, it could set a constructive precedent for future UK-EU collaboration in other domains, demonstrating how pragmatic, technically grounded cooperation can deliver mutual benefits even in a complex political context. By reinforcing habits of trust, transparency and early engagement between authorities, this approach would help strengthen stability and confidence in international regulatory frameworks more broadly. Over time, it could provide a replicable model for managing shared risks, supporting innovation, and fostering greater interoperability across a range of policy areas where the UK and EU continue to face common challenges.

# Joint Leadership in Global Standard-Setting: A Stepping Stone to a Deeper Partnership

Together, the UK and EU possess unparalleled financial services technical expertise and regulatory leadership, reflecting decades of shared rule-making, supervisory cooperation and engagement in global standard-setting. By collaborating more closely in international fora such as the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO), they can amplify their collective influence and ensure that global rules reflect both jurisdictions' commitment to high international standards whilst being internationally competitive in an ever-changing world. This joint leadership is

critical in shaping standards for emerging areas like digital assets and sustainable finance and other areas where significant standards are likely to be developed over time, as well as reinforcing existing global frameworks.

### A Common Agenda for a Changing World

This is not a theoretical exercise. The UK and EU face a common set of emerging challenges that require a coordinated global response. Stakeholders have consistently identified a clear agenda for joint engagement in:

- **Regulating Non-Bank Financial Institutions (NBFIs):** Both jurisdictions are grappling with the systemic risks posed by the growing NBFI sector. A joint approach at the FSB on issues like stress testing and leverage would be far more effective than fragmented national efforts. Particularly important is that both jurisdictions take a "same risk, same regulatory outcome" approach for banks and large non-bank liquidity providers (NBLPs). Regulatory requirements for large NBLPs should reflect their market risk, activities and systemic importance.
- **Creating a Prudential Framework for Digital Assets:** The proposed Basel Committee on Banking Supervision (BCBS) standard for cryptoasset exposures (SCO60) is seen by many in the industry as overly restrictive. As the Basel Committee looks to review the Standard, a coordinated UK-EU push to advocate for a proportionate recalibration would be a powerful intervention to ensure banks can participate safely in this innovative market.
- **Enhancing Operational and Cyber Resilience:** As evidenced by the recent UK-EU MoU on the oversight of critical third parties, there is clear recognition of a shared interest in ensuring the resilience of the financial system's digital infrastructure. This technical cooperation can be extended to shape global standards in this area.
- **Driving Interoperable Sustainability Disclosures:** The UK's endorsement of its own Sustainability Reporting Standards (UK SRS), which closely align with International Sustainability Standards Board (ISSB) standards, seeks to reduce the compliance burden for international firms by promoting interoperability. If the EU's ESG disclosure regime set out in the Corporate Sustainability Reporting Directive (CSRD) could be more closely aligned with the global baseline set by the ISSB, this would enable better interoperability, thereby reducing compliance standards for firms subject to both regimes.
- **Updating BCBS prudential standards:** From securitisation to the Standardised Approach for Counterparty Credit Risk to the final Basel III framework, the UK and the EU have elected to implement with targeted deviation in similar areas. This points to shared concerns and consistent approaches, if not identical re-calibration. Both jurisdictions value global standards and thus are constrained by them when they are mis-calibrated. A joint approach to update these standards by the BCBS, in a targeted manner, would future-proof international standard setters and renew confidence in their work.

### The High Cost of a Fragmented Voice

If the UK and EU fail to align their positions in these global fora, the consequences are significant.

- **It Encourages Regulatory Arbitrage:** Inconsistent implementation of global standards creates loopholes and an unlevel playing field, undermining fair competition and financial stability.
- **It Diminishes European Influence:** A divided UK-EU voice weakens their collective ability to shape global rules, ceding leadership to other major jurisdictions that might not share the same objectives. An important part of the European financial sector's success depends on a coherent and predictable international regulatory environment where global standards are implemented consistently across jurisdictions.

### A Pragmatic Foundation for a Stronger Partnership

Focusing on global standard-setting is a pragmatic and achievable way to further deepen trust and demonstrate the value of cooperation. This work is already happening informally, but it must be structured and formalised. With the UK scheduled to host the G20 summit in 2027 and Andrew Bailey, the Governor of the Bank of England, chairing the FSB, there is a unique and timely opportunity to deepen this cooperation.

# 02

# Beyond Brexit: A Story of Regulatory Reform

In preparing for the UK's exit from the EU, both sides undertook extensive work to manage the transition and establish a new framework for the future trading relationship. This included significant legislative, regulatory and operational changes designed to ensure continuity, mitigate disruption, and provide legal and supervisory certainty as EU law ceased to apply directly in the UK. For financial services in particular, this process required the rapid restructuring of regulatory frameworks, supervisory arrangements and market access models, laying the foundations for a fundamentally different relationship between two previously integrated markets.

## UK Onshoring of EU Financial Services Legislation & the EU-UK Trade & Cooperation Agreement

The UK Government and regulators made significant changes to the UK financial services framework in preparation for Brexit, whereby directly applicable EU law was onshored into domestic UK law and revised to ensure the framework remained effective. An EU-UK Trade & Cooperation Agreement (TCA) now underpins the broader UK-EU trading relationship. However, it does not provide for market access for financial services firms, nor does it establish structured obligations for regulatory cooperation between UK and EU financial authorities.

## Joint Declaration on Financial Services Regulatory Cooperation

A Joint Declaration on Financial Services Regulatory Cooperation[12] accompanied the TCA, with the UK and EU agreeing to "establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship between autonomous jurisdictions". A separate Memorandum of Understanding[13] established a framework for financial services cooperation, including the EU-UK Forum, co-chaired by the European Commission and HM Treasury. The EU-UK Forum provides a valuable platform for the exchange of views on regulatory reform

agendas, but has functioned largely as an information-sharing forum and not as a mechanism for advancing substantive regulatory cooperation.

# Equivalence Determinations

EU legislation includes several provisions enabling non-EU-based firms to offer certain specific services into the EU on the basis on their regulatory frameworks being assessed as 'equivalent' to EU standards. This is a patchwork of decisions that does not enable full access to the EU Single Market and is in no way comparable to the much broader and vastly more comprehensive EU financial services passporting regime. These equivalence regimes were broadly onshored in the UK.

As equivalence decisions are unilateral by their very nature, this means that, regardless of whether the regulatory regimes are technically identical or equivalent, there is no right to obtain a positive equivalence decision.

The UK granted a broad package of equivalence decisions to the EU[14], seeking to provide clarity and stability to market participants. The EU adopted a more cautious approach, citing concerns about the potential for the UK's future regulatory divergence with the EU, which resulted in a much more limited set of determinations than those granted to other major jurisdictions[15]. The UK has to date received only two: one for UK central securities depositories (CSDs), which expired in June 2021, and the other for UK central counterparties (CCPs), which is currently due to expire in June 2028.

In a highly globalised and interconnected sector, both the UK and EU recognise the importance of ensuring their regulatory reform agendas actively enhance the competitiveness of their financial services sectors. In an environment where capital, talent and innovation are increasingly mobile, regulatory frameworks must not only safeguard stability and market integrity, but also support growth, efficiency and international attractiveness.

# A Bespoke UK Framework

## Tailoring the Rulebook to the UK's Characteristics & Global Presence

The UK is in the process of replacing onshored EU legislation with a regulator-led framework that gives the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) broad rule-making powers, enabling a more agile, tailored and outcomes-focused approach to regulation. This flexibility allows rules to be better aligned with domestic needs while supporting international collaboration, as illustrated by reforms such as the Edinburgh and Mansion House agendas.

## The UK Reinforces its Status as an Open and Highly Connected International Financial Centre

UK authorities are now better placed to consider the sector's strategic positioning through a broad international lens, while fully recognising the EU as a critical market and regulatory partner within that. Given the global nature of the UK's financial centre, this should include prioritising alignment with global standards, deepening engagement with major international financial centres, including the EU, the United States, Switzerland and Singapore, and shaping rules that reinforce the UK's role as a leading global hub for capital, innovation and expertise. With the United States, for instance, the US–UK Transatlantic Taskforce for Markets of the Future is a

significant initiative to further deepen the UK-US financial services relationship. Whilst with Switzerland, the UK-Switzerland Berne Financial Services Agreement (BFSA) sets an ambitious precedent for future financial services-specific agreements.

## Looking Beyond Equivalence: the UK's Overseas Recognition Regimes

The UK Government has created a new recognition framework, which enables HM Treasury to designate the financial services regulatory framework of an overseas jurisdiction as equivalent to UK law and practice where it delivers comparable regulatory outcomes.

To ensure continuity and legal certainty, the Government intends to restate existing equivalence decisions in UK law with the same effect when the relevant equivalence legislation is replaced with a corresponding Overseas Recognition Regime (ORR) tailored to the UK's needs. The UK's approach is designed to be evidence-based and grounded in objective regulatory outcomes.

Taken together with the Overseas Persons Exclusion, which permits overseas firms to undertake certain regulated activities with UK counterparties on a cross-border basis, this demonstrates the UK's continued openness to financial services from around the world.

## The EU's Wider Reform Agenda & Strategic Approach to Market Access

The EU is also pursuing an ambitious programme of change. The EU's wide-ranging "Simplification" agenda reflects a recognition that regulatory frameworks must not only safeguard financial stability but also support efficiency, innovation and growth. This is also evident in the Commission's 2026 consultation on the competitiveness of the EU banking sector[16] and comes as the EU continues to advance its Savings and Investments Union and Banking Union agendas.

As this takes place, the EU's approach to financial services policy has increasingly prioritised the strengthening of onshore financial capacity within the Union. This has led to a significantly more cautious approach to third-country market access, which, in turn, is fragmenting the European market.

One clear example of this is the EU's Article 21c of CRD VI, which requires third country firms to conduct core banking activities in the EU either through an authorised branch or subsidiary, or via a limited number of exemptions. This is a major market-access restricting measure, which will significantly constrain the ability of UK-based firms to provide services cross-border into the EU. As a result, corporate borrowers will face a narrower range of financing options and, consequently, higher borrowing costs.

Over time, these effects will further deepen the fragmentation of European financial markets, which will reduce efficiency and liquidity in the broader ecosystem, ultimately increasing costs not only for firms but also for end users, including businesses and investors alike.

In its response to the Commission's Consultation on the Competitiveness of the EU Banking Sector, the European Banking Federation noted that financial institutions based outside of the EU, including the UK and Switzerland, play an important role in financing European priorities. It further stated that, as a result of the new global landscape and the shift in EU priorities (defence, digital, climate and energy), it could be worthwhile for the EU to explore whether Article 21c's scope (including on the exemptions intended to reduce the impact on institutional and professional clients), and the way it was formulated, contributes to the EU's strategic priorities which require significant financing, notably in defence.

The UK and the EU both have the ability to set their own market access policies. The UK has kept its openness towards the EU and the rest of the world and our industry is supportive of this approach. This is because restrictive measures like those outlined above, which restrict market access and further fragment markets, ultimately undermine the competitiveness and resilience of Europe's financial system by discouraging cross-border activity, reducing the diversity of market participants, and weakening the region's ability to mobilise capital efficiently across its economy.

# 03

# The Impact on Europe's Financial Market

Since Brexit, firms have adapted to a more fragmented operating environment. While the UK and EU remain closely aligned in many core areas, gradual differentiation in specific policy approaches has increased operational complexity and costs. At the same time, this evolving landscape creates opportunities for mutual learning, as ongoing dialogue and transparency can support better-designed and more effective regulatory outcomes on both sides.

## European Industry Adapted to the New Relationship

Taking all of the points outlined in chapter 2 together, firms have had to adapt to a new normal. To this end, the European-wide "hub-and-spoke" model, under which the UK functioned as a central platform for serving clients across the EU, has significantly evolved and moved towards a more decentralised European approach. Firms established or expanded EU subsidiaries to continue servicing clients, leading to fragmented operations, more complex governance structures, and, ultimately, increased costs. Activities once efficiently centralised in the UK are now spread across multiple EU and UK entities, diluting economies of scale. This fragmentation also passes significant costs on to clients, for example through the loss of multilateral netting benefits where derivatives portfolios are split across different clearing houses, trapping additional capital and increasing the cost of hedging.

## The Opportunities & Challenges of Different Approaches

### The Differing Approaches of the UK & EU Underscore Why Neither Dynamic Alignment Nor Wholesale Alignment is Appropriate

At the point of the UK's departure from the Single Market at the end of 2020, the UK and EU shared an identical regulatory rulebook, built over decades. In many core areas, particularly those governed by global standards like the Basel framework, this fundamental alignment largely persists.

However, both jurisdictions have since embarked on their own regulatory reform agenda, and this has inevitably led to the emergence of distinct UK and EU approaches in specific areas. These create challenges for the sector, but also opportunities. Overall, we do not support wholesale UK alignment or dynamic alignment with the EU in financial services. This is because:

- The UK now has the ability to swiftly respond to risks and market developments, where timely and targeted regulatory intervention can be critical to safeguarding financial stability and consumer outcomes.
- The UK is a global financial centre with diverse international relationships with a broad range of jurisdictions, including the EU, United States, Singapore and Switzerland.
- While the UK and EU share common regulatory objectives, differences in their market structures, scale and global orientation mean that rules should be tailored to domestic conditions. Ultimately, approaches suitable for one jurisdiction will not always be appropriate for the other.

Key examples of where the UK and EU have taken different approaches include:

- **ESG Disclosures:** The UK SRS is closely aligned with global ISSB standards, while the EU's CSRD uses the bespoke European Sustainability Reporting Standards (ESRS). While there are efforts to ensure interoperability, they remain two distinct frameworks.
- **Digital Assets:** The EU has implemented its comprehensive, stand-alone Markets in Crypto-Assets Regulation (MiCA), whereas the UK is bringing certain types of cryptoasset activity within the existing regulatory perimeter.
- **Artificial Intelligence:** the EU's horizontal, detailed framework under its Artificial Intelligence (AI) Act is different to the UK's approach that empowers existing sectoral regulators to address AI related risks within their domains.
- **Green Taxonomy:** The EU has implemented a detailed, prescriptive green taxonomy, whilst the UK is taking a more proportionate, disclosure-led approach.

## The Impact of Different Approaches

There are instances where the UK and EU requirements are highly similar in substance but not fully aligned in detail. In these cases, paradoxically, the closeness of the two regimes can create challenges that are as significant as those arising from more overt divergence, including in the areas outlined above. This is because:

- Operating in two entirely distinct jurisdictions is straightforward; firms simply run two separate systems and processes, each tailored to a different regulatory framework.
- The UK-EU challenge is more unique, in that as firms must comply with two separate regulatory regimes that are highly similar, especially in intent, but not fully aligned. This forces firms to maintain parallel compliance, reporting and operational structures to manage small but consequential differences. Teams must track and adapt to minor but material differences in rules and implementation timelines. Over time, this growing patchwork of small differences creates recurring costs and operational friction, acting as a drag on competitiveness for both UK- and EU-based firms.

## The Importance of Interoperability & Opportunities for Alignment in Select Areas

There are significant opportunities for both parties in deepening the UK-EU cooperation in financial services in ways that promotes interoperability between

regulatory frameworks. Ensuring that UK and EU rules can operate seamlessly alongside one another, particularly in areas of inherently cross-border market activity, would help reduce unnecessary fragmentation, lower costs for firms, and support efficient capital flows, while preserving regulatory autonomy on both sides.

That said, there will be specific and clearly defined areas where closer alignment delivers demonstrable mutual benefits and should be actively pursued. Any such alignment should be targeted and assessed on a case-by-case basis, focused on addressing concrete cross-border frictions or supporting market interoperability to the benefit of the UK and the EU. Alignment should not be treated as an objective in its own right, but as a pragmatic tool where it clearly adds value for UK and EU financial services firms, while preserving regulatory autonomy.

Ultimately, the UK's ORR will provide a strong foundation for achieving regulatory interoperability with major jurisdictions, including the EU. Designed on an outcomes-based basis, the framework reflects the UK's continued openness to inbound financial services from firms based outside the UK, including those in the EU, and places the UK in a strong position to work constructively with the EU to reduce friction, support cross-border activity and ensure greater coherence between regulatory regimes.

### Case Study: Maintaining Membership of The Single Euro Payments Area (SEPA)

The UK and EU payments landscape is at a pivotal moment, marking both a decade since the revised Payment Services Directive (PSD2) and a post-Brexit phase in which both jurisdictions remain strategically aligned on promoting competition, innovation, and security through open banking and account-to-account (A2A) payments. While the EU is advancing this agenda through initiatives such as the Instant Payments Regulation, the proposed EU Third Payment Services Directive and related Payment Services Regulation (PSD3/PSR) and pan-European wallet developments, the UK is pursuing parallel initiatives, including the modernisation of the UK Payment Services Regulations and innovations such as Pay by Bank, Variable Recurring Payments and A2A at point of sale. Continued interoperability between these systems represents a key opportunity, but it depends on addressing shared challenges around commercial models, consumer protection, and regulatory equivalence.

The UK's ongoing participation in SEPA remains critical for enabling vast cross-border payment flows, requiring continued alignment with EU standards, even as the UK explores selective regulatory developments. Decisions on UK participation in SEPA Instant, Verification of Payee, the Fraud Information Distribution Arrangement (FRIDA), and other initiatives will shape future UK-EU payments integration, with sustained equivalence likely to be essential for delivering the UK's broader payments and cross-border ambitions.

Since 2019, the UK has been required to submit an annual equivalence assessment to meet SEPA participation criteria. The European Payments Council, which manages the SEPA schemes, is expanding the scope of these assessments to include the anti-money laundering (AML) requirements of the Sixth Anti-Money Laundering Directive (AMLD6) and the EU Anti-Money Laundering Regulation (AMLR). Future equivalence assessments are also expected to cover both outsourcing and third-party risk management guidelines related to the EU's Digital Operational Resilience Act (DORA), as well as the capital holding requirements set out in the EU's Capital Requirements Regulation (CRR), as amended by Regulation (EU) 2024/1623 (CRR III) and CRD VI.

How to demonstrate equivalence must be a key consideration for UK policymakers and industry over the short to medium term. Not doing so would pose tangible risk to the UK's continued SEPA participation, its leadership within European payments and innovation, and future shared UK and EU alignment on strategic and policy objectives in this area.

# 04

# A Roadmap for Future UK-EU Collaboration

This roadmap outlines a sequence of short, medium and long-term proposals to build a stronger, more effective UK-EU financial services relationship, structured in a way in which this can be delivered over time. The initial proposals are deliberately focused on actions that are both credible in the near term and essential to unlocking more ambitious outcomes in the future. By delivering visible progress early on, the roadmap is designed to build confidence, reinforce trust, and lay the groundwork for deeper and more durable cooperation over the longer term.

# Short-Term Proposals

# Short-Term Proposal 1: Maximise the Value of the UK-EU Memorandum of Understanding on Financial Services Cooperation

The full potential of the UK EU MoU on Financial Services Cooperation should be utilised, and the EU-UK Forum it established should be strengthened to move from dialogue to delivery. While the MoU provides a solid foundation, its potential is under utilised due to structural limits and the absence of a clear political mandate. The EU-UK Forum must be repositioned as a proactive engine for regulatory coordination, underpinned by strategic direction from the annual UK EU Leaders' Summit, and supported by focused Task and Finish technical working groups. Together, these steps would enable the MoU to deliver concrete outcomes to the benefit of the European market and further deepen the level of trust among UK and EU authorities.

## The MoU's & EU-UK Forum's Limitations and Opportunities

The primary formal channel for UK-EU regulatory cooperation in financial services is currently via the MoU signed in June 2023, which established the Joint EU-UK Forum. More broadly, the MoU provides a framework for dialogue and engagement between UK and EU financial services authorities and offers a strong foundation on which to deepen cooperation.

To date, however, its potential has not been fully realised. In order for the UK and EU to build a more ambitious long-term partnership, the immediate priority must be to make fuller and more effective use of the MoU as a proactive engine for regulatory coordination. In this context, the EU-UK Forum has a role to play, not merely as a venue for structured dialogue, but as a catalyst for earlier engagement, more systematic cooperation, and the identification of practical solutions to shared regulatory challenges.

While the EU-UK Forum provides a valuable space for dialogue, its current format is not one which provides a mechanism to address many of the challenges UK- and EU-based financial services jointly face. As one senior stakeholder noted, the EU-UK Forum was designed as a platform for exchanging information, "but never for any decision". Another industry leader commented that without a clear political mandate to drive tangible outcomes, the EU-UK Forum risks remaining a "talking shop" that is "insufficient on its own to materially improve the broader UK-EU financial services relationship."

Under the MoU's current implementation, there are clear structural limits to what can be delivered through the EU-UK Forum. The EU-UK Forum is not a negotiating body, and substantive cooperation between the UK and EU authorities via the EU-UK Forum ultimately requires the involvement and agreement of all 27 EU Member States. As a result, while the EU-UK Forum provides an important channel for dialogue and technical engagement, it cannot on its own drive the next phase of cooperation under its current utilisation. For it to move beyond information-sharing and into more substantive technical work, it requires clear political direction and cover from the strategic level; anchoring its work within the broader UK-EU reset and providing the mandate necessary to translate dialogue into outcomes. Only then can the MoU's full potential be fully realised.

**In order to achieve this, the following should be sought:**

## Reorient the EU-UK Forum for Proactive Coordination

The EU-UK Forum's mandate should be explicitly elevated beyond information-sharing to focus on proactive strategic-level coordination in the development of future regulatory requirements and, where valuable, the implementation of new requirements. This would play a key role in identifying and then addressing the causes of fragmentation of the European market. This would likely require a clear top-down political mandate from the annual UK-EU Leaders' Summit to provide the EU-UK Forum with the necessary authority and direction needed to pursue a more forward-looking and ambitious agenda. By taking this approach, whereby high-level political priorities are agreed at the Summit, the EU-UK Forum could be formally tasked with translating and overseeing those priorities into their technical delivery. Anchoring the EU-UK Forum's activities in this way would ensure that regulatory cooperation is aligned with the wider strategic reset in UK-EU relations.

By implementing these practical and achievable enhancements, the UK and EU can transform the existing MoU from a symbol of cooperation into a powerful, results-oriented engine for building a more resilient, competitive and integrated European financial ecosystem.

## Establish Technical "Task-and-Finish" Working Groups Reporting to the EU-UK Forum

The EU-UK Forum should establish and mandate ad-hoc task and finish technical working groups as the primary vehicle for UK and EU technical-level cooperation on specific developments. These groups, composed of subject-matter experts from UK and EU authorities, drawing on industry expertise where appropriate, would operate under clear terms of reference and defined timelines, with a specific mandate to develop practical, technically robust solutions to identified cross-border challenges. This approach mirrors the proven "task-and-finish" model used by global standard-setting bodies, enabling focused, expert-led work, clear accountability, and timely delivery of outcomes that can be taken forward through existing governance channels.

Immediate priorities for these working groups should include transaction reporting, interoperable consolidated tapes, and market access. However, these are not a comprehensive list of priorities. Areas such as digital banking, and other ideas might emerge that are not covered here.

## Formalise & Expand Regulatory Authorities' Attendance at Meetings

Beyond the EU-UK Forum, cooperation could be strengthened by enabling the participation of UK and EU financial services regulators, particularly the UK FCA and PRA and the EU European Supervisory Authorities, in joint meetings, where appropriate, on a more formal and systematic basis. This would move beyond current ad hoc arrangements by ensuring participation in meetings where there are shared supervisory or policy interests, whether as an active participant or, where appropriate, in an observer capacity. This should be underpinned by, and integrated with, the existing framework of bilateral engagement at both EU and Member State level, as well as at the UK level. Taken together, these measures would promote more aligned outcomes in the development of UK and EU regulatory regimes and provide an effective mechanism for identifying and addressing potential differences at an early stage, before they become embedded.

## Pathways for Progress: Beyond the EU-UK Forum

While further developing the EU-UK Forum is a critical short-term priority, it is not the only pathway for further developing UK-EU financial services cooperation; the EU can also leverage its own internal processes and legislative cycles to enable this. For example, the European Commission could adopt non-binding recommendations or communications to build momentum with regard to some of the proposals in this report, for example with regard to defence finance, aligning transaction reporting and data formats, and developing more closely aligned UK-EU consolidated tapes in the medium to long-term. This would give a renewed momentum to the UK-EU financial services relationship. Some of the recommended changes could also be integrated into the current or planned reviews of the related EU Directives and Regulations as the EU progresses its simplification agenda and looks to reform its rulebook to maintain and further develop its international competitiveness.

In addition, it is important for the UK to strengthen its ties not only with the European Commission and ESAs through the EU-UK Forum and other interactions, but also with Member States on an individual basis and in their collective capacity as the Council of the EU. One powerful way to jumpstart the UK-EU financial services relationship would be for an Economic and Financial Affairs Council (ECOFIN) meeting to adopt Council conclusions promoting a renewed regulatory approach with the UK.

# Key Topics for UK-EU Technical Cooperation via the MoU

By maximising the MoU as a practical and forward-leaning framework for engagement, UK and EU authorities should prioritise intensified cooperation across a focused set of areas where early, tangible progress is both achievable and impactful. These areas, predominantly technical and therefore less politically sensitive, provide a particularly strong foundation for collaboration, as both jurisdictions are already advancing parallel reform agendas within them.

In addition to the key topics outlined below, the annual UK-EU Leaders' Summit could provide further political direction in other areas (as further described under Short-Term Proposal 2 below).

## Topic 1: Transaction Reporting

Transaction reporting is the nervous system of market supervision. The data reported by firms under regimes like Markets in Financial Instruments Regulation (MiFIR) and European Market Infrastructure Regulation (EMIR) is essential for regulators to detect market abuse, monitor systemic risk, and ensure market integrity. However, as the UK and EU now pursue parallel reforms of these shared rulebooks, there is a significant risk of creating a costly and inefficiently fragmented data landscape in Europe.

### *The High Cost of Small Differences*

At the point of Brexit, the UK and EU transaction reporting regimes were identical. Now, both are undertaking major reviews with the shared goal of simplification. The UK's FCA has consulted on streamlining the regime, and the EU's European Securities and Markets Authority (ESMA) is conducting a similar wide-ranging review. While the objectives are aligned, the risk is that the respective reforms will arrive at two systems that are, as one stakeholder described, *"similar in intent, but ultimately different in substance and implementation".*

For internationally active firms, complying with different regimes creates significant burdens:

- **Duplicative System Builds:** Firms are forced to build and maintain two separate, parallel reporting systems to comply with slightly different data formats, scopes, and delegation rules.
- **Increased Operational Costs:** Duplication of systems and compliance programmes leads to recurring and unavoidable costs, diverting resources that could be used for innovation or client services.
- **Fragmented Supervisory Data:** For regulators, two different data sets make it harder to achieve a complete picture of cross-border activity, potentially creating blind spots in the detection of market abuse that spans both jurisdictions.

***A Unique Window for Proactive Alignment***

The fact that both the UK and EU are reviewing their reporting frameworks simultaneously presents a unique opportunity to design interoperable systems from the outset, rather than attempting to address data disparities after the fact. A coordinated approach is a clear win-win for firms, as it would:

- Dramatically reduce compliance costs and operational complexity, allowing them to operate more efficiently across both markets.
- Ensure that regulators receive higher-quality, consistent data, enhancing their ability to oversee markets effectively and collaborate on cross-border supervision, investigations and enforcement.
- Strengthen the integrity and resilience of the entire pan-European financial ecosystem.

***The Blueprint for Cooperation: A Joint Approach to Data Standards***

The EU-UK Forum should be mandated to establish a Task and Finish Working Group on Transaction Reporting. This group, comprised of experts from the FCA, ESMA and industry, should be tasked with developing a common approach. This can be achieved without formal political treaties and should be a key short-term priority.

The Working Group's mandate should include:

1. **Agreeing a Common Data Model:** To harmonise the key data fields and formats for reporting, aligning wherever possible with emerging global standards like ISO 20022.

2. **Coordinating Timelines:** Ensure that changes to the UK and EU regimes are implemented on a synchronised schedule, allowing firms to plan and execute a single, coherent implementation project.

3. **Aligning on Scope:** Coordinate on which instruments are included or excluded. Respondents to the FCA's 2024 discussion paper on improving the UK transaction reporting regime[18] and ESMA's 2025 call for evidence on the simplification of financial transaction reporting[19] have highlighted the importance of regulatory alignment across jurisdictions. There are also opportunities for UK and EU regulators to learn from each other. For example, the FCA has proposed to remove instruments traded on EU venues from the scope of the UK transaction reporting regime after market participants noted that the EU does not require transaction reports for financial instruments which can only be traded in the UK.[20] At the same time, the FCA's proposal to remove FX derivatives from MiFIR transaction reporting on the basis that it already falls under EMIR is a sensible change that should be emulated in the EU. This type of targeted simplification is a valuable contribution to the debate and demonstrates how the process of regulatory learning can be a two-way street.

In the interim period, ESMA should be given an observer seat at the FCA/Bank of England joint taskforce, and the UK regulators should be given an observer seat at any similar taskforce established on the EU side.

By taking these practical steps, the UK and EU can avoid creating unnecessary barriers, reduce costs for the industry, and build a more effective transaction reporting supervisory framework for the future.

## Topic 2: Consolidated Tapes

Both the UK and the EU are establishing separate bonds and equities consolidated tapes to provide a single, comprehensive view of trading data, aiming to improve market transparency and price discovery and to lower costs for investors. While this parallel progress is positive, the creation of two separate tapes for what is still a deeply integrated European market is a suboptimal outcome that risks cementing fragmentation.

Ensuring technical interoperability between the two tapes is a critical short-term priority. In the medium to become long-term, once the tapes are operational and have demonstrated their value, regulators should explore how they can be brought more closely together to create a seamless market view for global investors.

### The Inefficiency of a Two-Tape System

A landscape with two separate tapes for both bonds and equities, one for the UK (provided by Etrading Software for bonds and with the equity tape yet to undergo procurement) and one for the EU (provided by Ediphy for bonds and EuroCTP for equities), creates inherent inefficiencies, even if they are well-designed individually:

- **Duplicative Costs:** Global investors and other data consumers who need a complete view of the pan-European market will have to subscribe to, pay for, and technically integrate two separate data feeds from different providers.
- **Fragmented Market View:** A two-tape system fails to deliver the core promise of a consolidated tape: a single source of truth. Users will still have to aggregate and normalise the data themselves, introducing complexity and latency that undermines effective price discovery.
- **Risk of Future Divergence:** As long as two separate providers operate under two distinct regulatory frameworks, there is a persistent risk that data standards, formats, or commercial policies will diverge over time, requiring constant monitoring and re-harmonisation efforts.

### The Blueprint for Integration: A Phased Approach

To maximise the benefits of a consolidated tape for the entire European market, this report recommends a pragmatic, two-phased approach led by regulatory cooperation through the EU-UK Forum.

- **Phase 1 (Short-Term Priority):** Maximise Interoperability. The immediate focus should be to establish a Task and Finish Working Group within the framework of the EU-UK Forum to drive maximum alignment between the nascent UK and EU tapes. Key priorities should include harmonising core data fields, latency standards, technical specifications, and access models to ensure they can function as seamlessly as possible from day one. This would allow for the efficient consumption of both tapes, minimise fragmentation, and deliver the intended objective of high-quality, comparable data for global investors.
- **Phase 2 (Medium- to Long-Term Goal): Explore Closer Integration.** Once both tapes are operational and have demonstrated their value, the performance and benefits of the interoperable model can be properly assessed. At this stage, the working group's mandate should evolve to look at how the two tapes can be brought more closely together. Regulators should explore options that provide the flexibility for further alignment in the future, potentially leading to a more formally integrated data infrastructure in this area.

**The Prize: A Coherent Market View and Reduced Fragmentation**

Achieving deep interoperability between the UK and EU tapes would deliver significant mutual benefits:

- **Reduced Costs and Complexity:** It would provide investors with a simpler and more efficient way to access pan-European market data and would streamline compliance for trading venues reporting into the tapes.
- **Deepened Liquidity and Capital Allocation:** A more unified view of trading activity across the UK and EU would make it far easier for investors to identify opportunities and allocate capital efficiently across the entire continent, powerfully advancing the goals of the EU's Savings and Investments Union.
- **Enhanced Global Competitiveness:** A highly interoperable UK-EU data landscape would be more attractive to global investors than a fragmented one, reinforcing the position of both markets as leading international financial centres.

## Topic 3: Digital Money, Assets and Tokenisation

The rapid growth of tokenised money and financial instruments presents both a significant opportunity for innovation and a potential source of future regulatory friction as both the UK and EU build their own domestic/regional-focused frameworks. This has led to a degree of divergence in respect of regulatory design, high-level approach, definitions and technical requirements. This parallel development offers a prime opportunity to pioneer a new model of proactive regulatory cooperation.

***The Risk of Uncoordinated Fragmentation***

Given the borderless nature of digital assets and money, a lack of coordination risks creating a fragmented and inefficient market across Europe. Specific risks include:

- **Fragmented Liquidity:** Applying location requirements to digital asset platforms and infrastructure providers, thus requiring the establishment of a subsidiary in the UK or EU, could result in fragmented liquidity and prevent the formation of deep, liquid pan-European markets.
- **Diminished Global Influence:** If the UK and EU cannot coordinate their approaches, their ability to shape global standards in this area in fora like the FSB and IOSCO could be weakened, potentially ceding leadership to other jurisdictions.
- **Operational Complexity and Cost:** Firms which set up branches or subsidiaries in both the UK and EU will need to comply with duplicative or conflicting requirements for licensing, disclosure, conduct requirements and prudential treatment, increasing costs and stifling innovation.

***A Blueprint for Proactive Cooperation***

There is a unique opportunity for the UK and EU to use an enhanced EU-UK Forum to design interoperable, robust regimes from the ground up.

A Task and Finish Working Group on Digital Finance should be established under the EU-UK Forum with a mandate to:

1. **Ensure Infrastructure Interoperability:** Work towards mutual recognition of standards for digital market infrastructures to enable seamless cross-border issuance, trading, and settlement of tokenised assets. One route to advance this would be to work on UK-EU Member State cross-border competitiveness labs and regulatory sandboxes, as described in more detail later in this report.

2. **Coordinate on Prudential Standards:** Jointly advocate for a proportionate and risk-sensitive recalibration of the Basel Committee's prudential framework for cryptoasset exposures (SCO60). A coordinated UK-EU implementation approach is essential to avoid an uneven playing field and ensure banks can safely participate in this market.

3. **Align on AML/CFT Approaches:** Ensure a consistent approach to AML and countering the financing of terrorism (CFT) rules for cryptoasset service providers, particularly regarding transaction monitoring and the application of the "travel rule" to prevent loopholes for illicit finance.

In addition, UK and EU authorities should take forward a regulatory review programme, assessing at both a principle and detailed level the degree of divergence between the two frameworks. This work should potentially lead to an amendment of their respective rules in order to enhance robust regulatory interoperability.

The European Commission could also submit a legislative proposal to make some of these changes, for example with regard to joint prudential standards as well as AML/CFT provisions, as part of its report on the functioning of MiCA, which is due by the end of June 2027.

***The Prize: Joint Global Leadership***

By aligning their approaches, the UK and EU can create a deeply integrated and highly liquid pan-European market for digital assets, driving innovation and competitiveness. More importantly, they can jointly set the global benchmark for how to regulate this nascent sector, embedding shared values of investor protection, market integrity, and financial stability into the international financial architecture. This would turn a potential area of friction into a powerful showcase for a renewed, strategic-level UK-EU financial services partnership.

## Topic 4: Tokenised Deposits

Tokenised deposits promise to revolutionise payment and settlement systems. They present a valuable technological upgrade of existing forms of money, which preserve monetary sovereignty and credit creation, while delivering new services and features for users. By enabling instantaneous, 24/7 and programmable transactions, they can create significant efficiencies for retail and wholesale markets, with particular potential in the context of the settlement of tokenised securities.

Both the UK and EU are exploring this technology. In the UK, the Great British Tokenised Deposit (GBTD) project is now concluding a live pilot phase, involving seven of the largest banks and building societies, to develop a platform to enable interoperable and fungible tokenised deposits for retail and wholesale payments. In the cross-border space, the Bank for International Settlements' (BIS) Project Agorá is making strong progress with a range of central and commercial banks. To support that, there should be further proactive cooperation to ensure that cross-border use of tokenised deposits is not stymied.

### A Blueprint for Proactive Cooperation

The proposed Task and Finish Working Group on Digital Finance (as initially outlined above) should also be tasked with accelerating the cross-border viability of tokenised deposits. Its mandate should include:

1. **Developing Common Interoperability Standards:** The working group should facilitate industry-led efforts, with regulatory support, to establish common protocols that allow distributed ledger platforms in the UK and EU to interact seamlessly.

2. **Ensuring Reciprocal Access to Market Infrastructures:** It would be beneficial for the UK and EU to agree on a common approach that allows both UK and EU firms to access the respective digital asset sandboxes and pilot regimes through their existing branch structures, promoting innovation and competition.

***The Prize: A 21st-Century Pan-European Settlement Layer***

Cooperation on tokenised deposits would unlock immense efficiencies for wholesale markets, as well as cross-border retail and business payments. Building on the work already underway in the UK, and in certain countries in the EU, as well as the work of the BIS, there is a huge opportunity for the UK and EU to cement their world-leading positions in this area and to ensure that digital commercial bank money in Euros and Sterling works seamlessly for users.

## Topic 5: Stablecoins

The rise of stablecoins as a new form of digital money for payments and settlement presents a critical test and a unique opportunity for UK-EU cooperation. Both jurisdictions are developing world-leading regulatory frameworks: the EU with its comprehensive MiCA regime, and the UK by amending its activity-based regime under the Financial Services and Markets Act 2000 to include new regulated activities relating to cryptoassets and stablecoins.

Whilst this creates challenges, it offers an opportunity to pioneer a new model of cooperation based on bilateral mutual recognition, creating a powerful competitive advantage for the entire European continent on the global stage.

***The Emerging Barrier: The "Dual Establishment" Problem***

Without deeper coordination, a major barrier could emerge for stablecoin issuers. A firm wishing to issue a Euro-denominated stablecoin (e-money token under MiCA) and a Sterling-denominated stablecoin may need to be authorised and established in both the EU and the UK, depending on the nature and design of the activities.

This "dual establishment" requirement may force issuers to create two separate legal entities, with their own regulatory capital requirements, reporting to two different sets of supervisors. This would potentially increase costs and severely inhibit the use of stablecoins in seamless, cross-currency transactions – one of the key innovations of tokenisation.

***A Unique Opportunity for a Reciprocal Solution***

Unlike other areas of financial services, the regulation of stablecoins may be suited to a more ambitious, bilateral agreement. This is a greenfield area where there are no entrenched legacy systems or politically charged histories. Should a stablecoin become systemically important, it should be possible to align and agree on an approach to oversight – there are existing precedents where UK-established operators of systemically important payment systems are subject to the oversight of EU authorities, and vice versa.

***The Blueprint for Mutual Recognition***

The EU-UK Forum should be mandated to consider the possibility of a mutual recognition framework for stablecoins. The mechanism would be a coordinated, bilateral equivalence or recognition assessment under respective EU and UK regulatory regimes leading to an agreement that would allow an authorised issuer in one jurisdiction to offer its services in the other without needing a full, separate authorisation, subject to registration and joint supervision.

This could be underpinned by a robust Memorandum of Understanding between the Bank of England, the EBA, and the

European Central Bank (ECB), establishing a joint college for the supervision of any cross-border systemic stablecoins, ensuring constant information sharing and coordinated crisis management.

Alongside this, it is critical that international financial institutions can conduct institutional stablecoin client activity via existing regulated and authorised branches. Confidence in firms' branch models has been a critical part of building regulatory parity around enabling growth in international financial markets via the UK and EU.

***The Strategic Prize: A Global Benchmark for Digital Money***

By creating a deeply integrated, multi-currency market for regulated stablecoins, the UK and EU can establish a global benchmark for cross-border digital finance. In contrast to the more fragmented regulatory approaches seen elsewhere, this unified framework would create a powerful and attractive ecosystem. The strategic benefits would be significant:

- **Attracting Global Innovation:** The scale, clarity, and legal certainty of a unified UK-EU market would make it the premier destination for global firms to develop and scale new products in regulated digital money and tokenisation with high-quality standards and operating models.
- **Fostering a Diverse Digital Ecosystem:** It would create a vibrant ecosystem where regulated Sterling and Euro stablecoins can thrive alongside other major currency tokens. This promotes a multi-polar digital currency landscape, which enhances resilience and provides greater choice for businesses and consumers.
- **Enhancing Europe's Collective Global Influence:** A successful UK-EU model for mutual recognition would serve as a powerful template for other jurisdictions. By demonstrating how to balance innovation with high standards, the UK and EU can jointly lead the global conversation and ensure that the future architecture of digital money reflects their shared values of stability and openness. This strengthens Europe's collective voice, allowing it to engage more effectively with all its international partners, including the US, in shaping the future of global finance.
- **Avoiding "flight to the safest" concerns:** Given the current models for stablecoin issuance, there is a risk that stablecoins issued under weaker frameworks could, in a stress state scenario, fly to the more robustly protected regimes like the UK or EU for redemption. Recognition of each other's jurisdictions could help to ensure that there are consistent prudential requirements. A closer collaborative examination of the risks around multi-currency, multi-issuance stablecoins by both UK and EU authorities is also important.

# Short-Term Proposal 2: A New Model for Cooperation – Harnessing the UK-EU Regulatory Learning Loop

As the UK and EU pursue financial services reforms, there is clear scope for mutual, intentional learning. Policymakers monitor developments on both sides and draw on them when shaping proposals, sometimes moving at different speeds. To harness this dynamic, the EU-UK Forum should establish a dedicated standing agenda item focused on the systematic exchange of key insights, implementation experiences, and practical lessons arising from recent regulatory reforms.

Under this agenda item, both sides should agree clear, practical steps to formalise the learning cycle between meetings, transforming ad-hoc exchanges into a structured, ongoing process that supports more consistent mutual learning and more interoperable regulatory outcomes, with scope for appropriate industry input.

## A Regulatory Learning Loop

Beyond formal dialogues and treaties, a powerful, organic form of cooperation is emerging: a "regulatory learning loop". As two sophisticated but now distinct regulatory systems, the UK and EU are effectively acting as real-time policy laboratories for each other. Policymakers and regulators in both jurisdictions closely monitor developments on the other side of the Channel and, where appropriate, draw on these experiences when shaping their own proposals. When one jurisdiction innovates, the other has the opportunity to observe, learn from its successes and failures, and then adopt or adapt the approach. In some cases, it can result in one jurisdiction choosing to go further or move faster than the other.

This creates a distinct dynamic in which, as one industry stakeholder observed, there is clear value in targeted improvements being introduced rapidly within a single jurisdiction, allowing the other to observe outcomes, draw lessons, and adapt in turn. While cross-border collaboration in these areas is widely seen as the most sought after approach, it is also recognised that such processes can, by their nature, take longer to develop, whereas individual jurisdictions are often able to move more quickly when acting independently.

## UK Reforms as a Testbed for EU Simplification

The UK's "Smarter Regulatory Framework" allows for the UK to move with greater speed and flexibility in targeted areas of financial services reform, creating a live testbed for innovative regulatory approaches that can inform the EU's own simplification agenda. These include:

- **Replacing PRIIPs with a CCI Regime:** The EU's Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation is widely seen as overly complex. The UK is in the process of replacing it with a new, simpler Consumer Composite Investment (CCI) regime. This provides the EU with a live case study of a less burdensome approach to retail investment disclosures. If the UK's CCI regime proves successful in improving consumer outcomes while reducing industry costs, it offers a powerful blueprint for the EU's future reforms in this area.
- **PISCES as a Model for Private Markets:** The UK has introduced its Private Intermittent Securities and Capital Exchange System (PISCES) to allow private companies to trade their shares periodically. This innovation has been closely watched. The European Commission is now developing its own proposal for an intermittent trading platform, which is "drawing on many of the key features and concepts of the UK's PISCES platform". This is a clear example of the EU directly learning from a successful UK initiative.
- **Transaction Reporting Simplification:** Both the UK and EU are reviewing their transaction reporting regimes with the shared aim of simplification. Industry stakeholders have expressed a *"clear preference for the UK's proposed approach in this area and believe the EU should follow suit."* Indeed, there is a perception among some firms that after reviewing the UK's ambitious proposals, the EU may adopt an even more streamlined set of reforms.

## EU Initiatives as a Catalyst for UK Policy

This learning loop is a two-way street. The EU's scale, institutional depth and comprehensive rulemaking often position it as an informal global standard-setter, with its initiatives shaping the regulatory agenda of jurisdictions across the world. In certain areas, the UK can take inspiration from the EU.

- **Digital Assets and the DLT Pilot Regime:** The EU's DLT Pilot Regime was a first-of-its-kind sandbox for tokenised securities. The UK's subsequent Digital Securities Sandbox was able to learn the lessons from the EU's initial experience to create a more flexible model. Now, the EU is developing its DLT Pilot "version 2.0", which is in turn looking at the successes of the UK's approach. This iterative process of mutual learning is accelerating innovation in both markets.
- **ESG Disclosures:** The EU's ambitious CSRD and its detailed ESRS were a major first move. This allowed the UK to observe the EU's approach and its complexities before developing its own ESG disclosure regime and the UK SRS, which are closely aligned with global standards from the ISSB. This has, in turn, put pressure back on the EU to ensure its standards are interoperable with the global baseline, demonstrating a continuous regulatory dialogue.
- **Disclosure of inside information:** The EU Listing Act allows issuers to delay disclosing inside information in "protracted processes", such as M&A transactions and reorganisations, until the final event occurs, rather than disclosing intermediate stages. The UK may look to this as an example of a more pragmatic approach to handling and disclosing inside information, whilst ensuring the confidentiality of that information.

***The Path Forward: Formalising the Learning Loop***

This pragmatic, bottom-up cooperation is already happening and is delivering benefits. The next step is to make this implicit dialogue more explicit and structured.

The EU-UK Forum should establish a standing agenda item dedicated to "sharing lessons from recent regulatory reforms". Under this agenda item, both sides could agree concrete next steps to formalise this learning cycle between meetings; for example, commissioning short joint technical notes, organising thematic workshops or joint events, scheduling regular bilateral catch-ups between working-level teams, and hosting dedicated learning sessions on major reforms. This would turn ad-hoc observation into a predictable, mutually reinforcing process that supports better-designed, more interoperable regulatory outcomes. There could be a role for industry to support this too. This would ensure that the "learning loop" dynamic is a deliberate and acknowledged part of the relationship, fostering better regulation on both sides without requiring complex legal agreements.

# Short-Term Proposal 3: Embed a Financial Services Agenda in the Annual UK-EU Leaders' Summit

UK EU financial services cooperation has advanced steadily in recent years. However, progress to date has largely been incremental and technical, rather than embedded within a clear strategic framework, reflected by the continued absence of financial services from the broader UK EU reset, despite the sector's central role in supporting growth across Europe. In order to unlock the full potential

of the UK-EU financial services relationship, financial services must be elevated to a strategic priority at the annual UK-EU Leaders' Summit.

***The Need for Top-Down Political Direction***

The Summit should be the central forum for setting strategic priorities for the financial services relationship, mandating concrete deliverables and driving momentum across the financial ecosystem. Enhanced technical cooperation can then flow from that top-level direction, ensuring the strategic financial services objectives and the more technical-level initiatives are fully aligned with each other. Without senior-level political commitments, technical engagement risks becoming fragmented or constrained in ambition at a time when there is such great potential for deeper collaboration.

To this end, there should be a dedicated financial services workstream at the Summit, which would provide precisely this political steer. It would provide the EU-UK Forum and its working groups the mandate and confidence to pursue more ambitious collaboration to the benefit of the European market as a whole.

## The Mechanism: Aligning Political Direction with Technical Delivery

Embedding financial services in the Summit would create a powerful dual-track approach for progress:

- **Top-Down Mandate:** At the annual UK-EU Leaders' Summit, the UK Prime Minister (or Chancellor of the Exchequer) and the Presidents of the European Commission (or the Commissioner for Financial Services) and Council of the EU should agree a set of strategic-level objectives to guide UK-EU cooperation in financial services. These objectives should be deliberately high-level and outcome-focused, targeting areas where joint action can address shared systemic challenges, unlock growth, and enhance Europe's global competitiveness. These priorities should be clearly reflected in the Summit's communiqué and any accompanying joint statements, embedding them as publicly articulated commitments. This would serve both to signal shared intent to markets and stakeholders, and to establish a transparent basis for accountability and follow-through by the relevant authorities.
- **Bottom-Up Delivery:** The Summit would then formally initiate the task of the relevant UK and EU authorities delivering against these agreed strategic objectives, translating political direction into operational action. The EU-UK Forum should serve as a central delivery vehicle for this effort, evolving into the primary platform for structured regulatory cooperation. In this role, the EU-UK Forum would act as the "engine room" of the partnership, convening regulators, policymakers and technical experts to collaborate to develop concrete, implementable solutions. This would be achieved through the establishment of targeted, expert-led working groups aligned to each priority objective, tasked with identifying barriers, proposing practical reforms, and driving measurable progress.

This approach would bridge any gap between political-level ambition and technical-level action, creating a clear chain for delivering progress on the set priorities. Relevant industry bodies on both sides of the Channel, such as UK Finance and the City of London Corporation in the UK, and the European Banking Federation in the EU, could be consulted ahead of the Summit to provide expert input on specific issues and help inform the agenda.

By elevating financial services to the highest political level, the UK and EU can ensure that this critical sector is fully integrated into their broader strategic partnership as the UK-EU reset continues and, over time, gains momentum. Doing so would provide the political impetus needed to begin addressing long-standing issues for the financial services industries on both sides of the Channel, while also creating a clearer framework for managing future challenges in a more structured and strategic way.

**Case Study: Defence Finance – A Strategic Imperative for a Renewed Partnership**

A clear illustration of how this top-down political mandate and bottom-up technical delivery could operate in practice is defence finance. As the UK and EU seek to strengthen Europe's security and defence in response to a more volatile geopolitical environment, **leaders at the Summit should agree a shared objective of enhancing the financial system's capacity to support defence investment. That political direction should then be translated into practical action through the EU-UK Forum, which should be tasked with establishing a dedicated Joint Defence Finance Taskforce.** Its role would be to identify regulatory, supervisory and market barriers that inhibit UK- and EU-based financial institutions from financing defence-related activities across both jurisdictions, and to develop targeted proposals to address them.

Among other areas, this would include Article 21c of CRD VI, which will significantly inhibit cross-border lending from third-country based firms into the EU.

This would bring greater strategic coherence to an area where policy ambition is increasingly clear, while recognising that the supporting cross-border financial architecture could, over time, be developed to address or deliver on the agenda. It would also provide a practical mechanism for aligning wider UK-EU security and industrial objectives with the regulatory and market conditions needed to mobilise private capital at scale.

Ultimately, the return of major conflict to Europe has created an urgent and shared imperative for both the UK and the EU: the need to rapidly rebuild and scale their defence and security. This requires mobilising private capital on a scale not seen for decades. While both jurisdictions have launched ambitious initiatives to address this, the current UK-EU financial framework does not fully support as efficient and coordinated an approach as this shared objective may ultimately require.

## A Shared Ambition Undermined by a Fragmented Approach

Both the UK and the EU have clearly recognised the broader defence and security challenges and have set out parallel ambitions. The EU's Security Action for Europe (SAFE) was established to accelerate defence readiness by enabling urgent and large-scale investments in the European defence industry, while the UK Ministry of Defence's Defence Industrial Strategy 2025 explicitly identifies banks and financial services firms as key enablers of the Government's defence ambitions, highlighting the sector's vital role in mobilising capital. The UK-EU Security and Defence Partnership, signed in May 2025, provides the high-level political framework for cooperation, but the practical financial dimension has been left unaddressed.

Despite this clear alignment of objectives, the European financial services sector, which is a critical enabler for the achievement of these strategies, remains stuck in a framework that actively creates unnecessary friction to the flow cross-border financial services. The most significant barrier to a more integrated defence financing ecosystem is Article 21c of CRD VI. The requirement will restrict third-country based financial services firms, including those in the UK, from providing core banking services, which includes lending, directly into the EU and, therefore, to EU corporates. Only limited and very specific exemptions are available.

This is not a theoretical challenge; Article 21c will have a direct, negative impact on the financing of the EU's own defence industry given the interconnectedness of the UK and EU financial markets as outlined above. It makes it significantly more difficult and costly for an EU defence company to access the deep pools of capital and specialist financing expertise which the UK provides. At a time when the EU needs to leverage every available source of capital to meet its security needs, this regulatory barrier will significantly inhibit the efficient flow of investment from the UK into this critical sector. This reflects not only the position of UK industry but also that of EU industry, as highlighted by the European Banking Federation. The Federation has questioned whether the scope of Article 21c genuinely supports the EU's strategic-level priorities, including those related to defence, whilst the Association for Financial Markets in Europe (AFME) has said the European Commission should consider revising Article 21c's scope to retail core banking activities, specifically, to retail deposit-taking and retail lending[21].

*"Financial institutions based outside of the EU, including those in the EU's closest allies in this geopolitical landscape such as the UK and Switzerland, play an important role in financing European priorities. The EU has created a regime for foreign banks (Article 21c) in the CRD6 which was intended to guarantee a level playing field between EU and non-EU headquartered banks.*

*However, the regime was proposed in a period when both the global environment and the EU's strategic priorities differed significantly from those of today. As a result of the new global landscape and the shift in EU priorities (defence, digital, climate and energy), it could be worthwhile for the EU to explore, without undermining the objectives of Article 21c, whether Art. 21c's scope (incl. on the exemptions intended to reduce the impact on institutional and professional clients), and the way it was formulated, contributes to the EU's strategic priorities which require significant financing, notably in defense".*

**European Banking Federation response to the European Commission's Targeted consultation on the competitiveness of the EU banking sector**[22]

## The Path Forward: A Politically-Led, Technically-Delivered Solution on Cross-Border Defence Financing

To resolve this challenge, the issue must be elevated from a purely technical discussion to a strategic and political-level priority. This report proposes a two-pronged approach:

- **A Top-Down Mandate from the UK-EU Leaders Summit:** Defence and security are already a significant pillar of the UK-EU reset, yet there is still substantial ground to cover. The annual Summit should be used to establish a clear political mandate on defence financing. This mandate should take the form of a joint commitment to enhancing the financial ecosystem's capacity to fund the defence industry by removing regulatory obstacles that currently impede investment. Such a commitment would demonstrate shared strategic intent and provide direction to supervisors and industry on aligning regulatory outcomes with the UK and EU's evolving security priorities.
- **Bottom-Up Delivery via the EU-UK Forum:** The Summit would then formally task the EU-UK Forum with developing proposals for delivering on this mandate. To do so, the EU-UK Forum should establish a Joint UK-EU Defence Financing Taskforce with a clear remit to identify and propose solutions to regulatory obstacles. This work should explicitly include Article 21c, given the requirement's significant impact on the cross-border provision of core banking services. Addressing these barriers is essential to enabling UK firms to contribute directly to European defence financing initiatives and to ensuring that financial regulation supports, rather than constrains, shared security objectives.

By addressing these barriers to the cross-border provision of financial services, the UK and EU would be better positioned to support European defence and security through the development of a wider, more resilient capital pool for defence companies to access. It would serve as a powerful proof-of-concept for the new partnership: clear evidence that when strategic interests align, pragmatic cooperation in financial services is not only achievable but essential to the shared security and prosperity of the continent.

# Short-Term Proposal 4: Non-Time-Limited CCP Equivalence

One of the most persistent sources of uncertainty in the UK-EU financial relationship is the time-limited nature of the EU's equivalence decision for UK-based CCPs under Article 25(6) of EMIR. The current temporary recognition is set to expire on 30 June 2028, having previously been extended, creating a rolling "cliff-edge" risk that undermines market confidence and constrains long-term planning in Europe. Moving to a non-time limited equivalence determination is an urgent, pragmatic step to support financial stability, reduce inefficiencies and provide predictability for market participants.

## Addressing the EU's Strategic Concerns: A Partnership Model for Resilience

The EU's caution in granting non-time-limited CCP equivalence under Article 25(6) of EMIR reflects a broader strategic objective to reduce what it sees as overreliance on UK CCPs and to support the development of its own financial market capacity. In this respect, there is a strong case for a balanced and proportionate approach.

Efforts to strengthen domestic infrastructure need not come at the expense of continued access for EU market participants to the services provided by UK CCPs, especially given the high degree of market integration between the UK and EU, the longstanding history of regulatory alignment between both jurisdictions, and the critical role that UK clearing services continue to play, alongside EU based CCPs-based, in supporting liquidity and risk management across EU markets.

A calibrated approach, where EU market participants retain their current level of access to UK CCPs on a non-time-limited basis, supported by robust and well-established supervisory cooperation, can sit alongside the continued development of EU clearing capacity, in a way that reinforces, rather than detracts from, financial stability. To this end:

- **Robust Regulatory Framework:** The UK maintains a robust and internationally respected regulatory and supervisory framework, grounded in many of the same core principles and policy objectives that underpin the EU's approach. Both jurisdictions prioritise financial stability, market integrity, investor protection, and effective risk management, and continue to implement high regulatory standards informed by global frameworks developed through bodies such as the FSB, the Basel Committee on Banking Supervision, IOSCO and the Committee on Payments and Market Infrastructures (CPMI). While their rulebooks have evolved separately, there remains a strong degree of alignment in outcomes, supported by comparable supervisory practices and a shared commitment to resilient, well-functioning markets. This common foundation provides a high level of confidence in the equivalence of regulatory outcomes and creates a solid basis for ongoing cooperation and regulatory recognition.

- **Robust UK Supervision Provides a Guarantee of Safety:** The Bank of England is a world-leading prudential supervisor with a globally respected track record in overseeing CCPs. Because UK CCPs have been designated as Tier 2, meaning they are systemically important to the EU, ESMA has been granted direct and extensive supervisory powers over them. This goes far beyond the typical information-sharing seen in supervisory colleges with other third countries. This framework creates a robust, dual-supervisory model: a "belt and braces" approach that combines the strength of the Bank of England's world-class domestic supervision with direct, hands-on involvement from the EU's own markets authority.
- **Access to Renowned Global Infrastructure:** A resilient and competitive European economy is strengthened by access to deep, liquid and efficient global financial infrastructure. In this context, EU market participants benefit from the ability to draw on a broad and complementary range of CCP services in the UK, which can offer advantages such as enhanced liquidity and more competitive pricing. UK CCPs play a central role within the European financial ecosystem, supporting efficient risk management and facilitating access to wider international capital markets.

### The Path Forward: A Permanent Solution for a Stable Future

There is now a clear opportunity to move beyond temporary arrangements and consider a more durable, forward-looking approach to equivalence. Transitioning to a stable, non-time-limited framework would enhance predictability, support efficient market functioning, and reduce operational complexity and costs for EU institutions and their clients. Underpinned by strong and ongoing supervisory cooperation, such an approach would reinforce financial stability while also signalling a renewed, pragmatic and constructive phase in the UK-EU financial services relationship.

Furthermore, the "comparable compliance" model set out in Article 25a of EU and UK EMIR, pursuant to which ESMA and the Bank of England assess whether Tier 2 CCPs satisfy relevant EMIR requirements by virtue of their compliance with their home country regimes, enables CCPs to fulfil certain EMIR requirements by demonstrating compliance with their home country's regulatory framework.

Shifting the focus from strict rule-by-rule comparisons to an evaluation of whether third-country frameworks deliver equivalent regulatory *outcomes* would offer a pragmatic alternative to traditional equivalence determinations. This could serve as a template for future cross-border regulatory cooperation, enabling regulators to preserve high standards while reducing market fragmentation and avoiding the binary, high-stakes nature of detailed equivalence assessments.

## Short-Term Proposal 5: Enduring Data Adequacy Decision

The modern financial system runs on data. From processing payments and managing investments to combating financial crime and handling employee information, the seamless and secure flow of personal data across borders is an integral part of modern banking operations. The EU's data adequacy framework is the foundational pillar that enables this flow between the EU and trusted third countries.

The UK Government recognises all EU and EEA member states as providing an adequate level of data protection. The European Commission has also granted the UK data adequacy decisions; however, unlike adequacy decisions granted to other jurisdictions, the UK's adequacy remains subject to a sunset clause, meaning it may lapse unless actively renewed. This introduces a recurring source of uncertainty for firms, as it creates the risk that data transfers could become restricted at relatively short notice, potentially disrupting business operations and increasing compliance and operational costs. This arrangement is currently set to last until the end of 2031, following a renewal. Removing this time limit and having an enduring decision are logical and essential short-term priorities.

Ultimately, seamless UK-EU data sharing arrangements are vital for trade, enabling safe data flows that underpinned £161bn of the £772bn total bilateral trade in 2022[23].

## The High Cost of a "Digital Cliff-Edge"

The time-limited nature of the UK's adequacy decision creates a perpetual "digital cliff-edge", which has negative consequences for firms operating across Europe:

- **It Chills Long-Term Investment:** Building the complex, integrated IT systems that underpin cross-border banking requires multi-year investment cycles. The uncertainty of a 2031 deadline discourages firms from investing in deeply integrated, efficient pan-European systems, as they cannot be sure that the legal basis for those systems will still exist in the future.
- **It Creates Immense, Unproductive Compliance Burdens:** The alternative to adequacy is a patchwork of other legal mechanisms, such as Standard Contractual Clauses (SCCs) or Binding Corporate Rules (BCRs). These are far more costly and complex to implement and manage at scale. Firms cannot wait until 2031 to plan for a potential non-renewal; they must maintain contingency plans much earlier before then, diverting resources away from innovation and client service towards a duplicative compliance exercise for a risk that has no reason to exist.
- **It Poses a Systemic Digital Risk:** A failure to renew the adequacy decision would represent a self-inflicted digital shock to the European financial system. It would not be a smooth transition. It would disrupt live payment and settlement systems, interfere with anti-money laundering and fraud monitoring, and complicate the management of cross-border banking groups, introducing a new and entirely avoidable element of systemic risk.

## Having a Non-Time Limited Determination is a Pragmatic, Low-Risk Decision for the EU

One of the factors underpinning the EU's current approach is concern about potential future divergence in the UK's data protection framework. In practice, the position is more nuanced.

- **The UK's Framework is "Essentially Equivalent":** The UK's data protection regime, enshrined in the UK GDPR, is fundamentally aligned with the EU GDPR. The European Commission has already conducted the detailed technical analysis and confirmed that the UK's framework is "essentially equivalent" to the EU's own high standards. This is not a distant, unfamiliar regime; it is one the UK co-authored and continues to uphold.

- **Cooperation is More Effective than a Cliff-Edge:** Adequacy decisions are not set in stone; the Commission can review or revoke a decision at any time if a country's standards do not meet its expectations. Instead of relying on a disruptive sunset clause, the EU should use the established channels for regulatory cooperation to manage any future concerns about divergence. Continuous dialogue and proactive engagement provide a more stable and effective means of managing a bilateral relationship than reliance on time-limited mechanisms.

## The Path Forward: An Enduring Foundation for Digital Trade

Removing the sunset clause in the UK's data adequacy decision would be a clear win-win. It would remove a significant source of uncertainty, reduce compliance costs for EU and UK firms, unlock long-term investment in digital infrastructure, and enhance the resilience of the pan-European financial system. The legal and technical groundwork is already here; all that is required is the political will to provide the long-term certainty that businesses and consumers on both sides of the Channel need.

# Medium-Term Proposals

# Medium-Term Proposal 1: A UK-EU Services Mobility Agreement to Unleash Talent

One of the most immediate and tangible barriers to efficient cross-border business is the increased friction in the movement of skilled professionals between the UK and the EU, given financial services is fundamentally a knowledge-based industry. The current constraints on mobility, secondments and project-based travel are not merely administrative inconveniences; they go directly to the European sector's productivity, competitiveness and ability to serve international clients effectively. A bespoke Services Mobility Agreement (SMA) would be an important way of addressing this and could build on the existing TCA provisions. This is not a novel concept, as the EU already includes limited services mobility provisions in trade agreements with other partners. It is also not intended to replicate, nor to move incrementally towards, freedom of movement. Rather, it is a proportionate, sector-specific response to an identifiable challenge.

## The Problem: A "Friction Cost" on Talent and Expertise

The move away from frictionless travel has introduced additional layers of complexity into the financial services ecosystem, effectively creating a "friction cost" that accumulates into a meaningful drag on efficiency and competitiveness over time. For a sector that depends on the rapid deployment of expertise, even modest increases in administrative and logistical requirements can have a disproportionate impact. Firms pointed to the additional administrative steps and longer transit times now associated with routine business travel. As one firm observed, *"colleagues are having to spend more time in transit than previously; time that could otherwise be used more productively, such as in meetings"*. Another noted that the traditional model of *"same-day, fly-in/fly-out"* engagements has become more difficult to sustain, resulting in *"one or two less meetings or events that we can actually attend"*.

While these effects may appear operational in nature, their cumulative impact is strategic. Reduced agility in cross-border engagement can limit firms' ability to maintain close client relationships, pursue new business opportunities and respond dynamically to market developments. Over time, this risks diminishing the attractiveness and competitiveness of the UK-EU financial services corridor.

These barriers have also made it more challenging to build, maintain and deploy integrated, pan-European teams, an issue felt on both sides of the Channel. Firms highlighted growing challenges in aligning talent with business needs across jurisdictions. One international bank, for example, described its efforts to attract talent to its EU entity as *"difficult"*, requiring *"quite creative"* approaches to recruitment and resourcing strategies. Another firm observed that, while overall hiring remains resilient, there has been a slight decline in the recruitment of EU nationals into their UK entity.

Reduced ease of movement also constrains the face-to-face collaboration central to professional development in a knowledge-intensive sector. Stakeholders noted fewer opportunities for cross-border placements and exchanges; as one bank observed, transfers between UK and EU offices are now *"harder than what it used to be"*.

Against this background, there is a clear rationale for exploring targeted, proportionate measures to streamline short-term business travel and professional mobility.

## The Solution: A Bespoke Services Mobility Agreement

A UK-EU SMA would not be a return to freedom of movement. It would be a targeted, treaty-based agreement designed to facilitate temporary, short-term business travel for skilled professionals.

- **The Model:** The agreement could be modelled on the UK's successful SMA with Switzerland, but with a broader scope tailored to the UK-EU relationship. It would allow a UK professional to provide services in the EU (and vice-versa) for a defined period (e.g., up to 90 days in any calendar year) without the need for a work permit or visa. This is not a novel concept for the EU, which has included limited provisions for services mobility (known as "Mode 4") in its trade deals with countries like Canada and Japan, demonstrating that a framework for this exists. These arrangements provide a useful reference point, illustrating how mobility can be facilitated in a targeted and controlled way, consistent with domestic regulatory objectives. A UK-EU agreement would build on this by more comprehensively reflecting the depth, proximity and integration of the UK-EU financial services relationship.
- **The Scope:** The agreement would cover specific activities, such as attending client meetings, negotiating deals, conducting site visits, and undertaking short-term project work. It should also include provisions for intra-company transfers and a more streamlined process for the mutual recognition of professional qualifications, an issue highlighted by stakeholders.

## The Mutual Benefit: A Win for a More Competitive Europe

Facilitating the movement of skilled professionals would deliver mutual benefits, strengthening the competitiveness of both the UK and EU economies. It would enable firms and corporates across both jurisdictions to access more efficiently the depth and breadth of specialist expertise available on either side, enhancing their ability to compete globally. For EU-based businesses, this includes improved access to highly specialised services and capital markets expertise; for UK-based firms, it would support the seamless servicing of EU clients and continued integration with EU markets.

More broadly, it would support the exchange of knowledge and skills across the European market and reinforce the interconnectedness of the UK-EU financial ecosystem, contributing to a more dynamic and innovative market that is better positioned to attract global talent and investment.

The political sensitivities surrounding mobility can be addressed through a clear focus on temporary, purpose-based business travel rather than permanent migration. Recent progress on youth mobility demonstrate that, where there is mutual benefit, discussions on pragmatic and carefully scoped arrangements are both possible and acceptable to both parties. Building on this emerging precedent, a targeted framework for professional mobility provides a proportionate and balanced means of facilitating high-value economic activity while remaining fully consistent with domestic policy priorities.

# Medium-Term Proposal 2: The CRR Equivalence Gap – A Pragmatic Case for Targeted Equivalence

There should be targeted action in areas where the current impasse on equivalence is generating clear, avoidable costs. A prime example is the absence of an equivalence decision for the UK under the EU's CRR. This is not just a UK issue; it directly impacts EU-banking groups by forcing them to hold more capital against their UK exposures than is economically warranted, creating a clear lose-lose scenario. This means that capital is used less efficiently, cross-border activity becomes more expensive, and firms on both sides of the Channel face unnecessary operational friction. The UK has already granted the EU CRR equivalence, demonstrating that this is not a matter of cherry picking but of pragmatic, reciprocal regulatory recognition. An EU decision would restore symmetry, reduce unnecessary costs, and support more efficient cross border operations for both UK and EU firms.

## The Challenges of a Lack of CRR Equivalence Determinations

As one of UK Finance's banking members articulated, the high-level political issue of not granting equivalence in this area has on the ground operational impacts on their banking operations.

> *"CRR equivalence has become this massive political question when actually we're just looking at a few articles that just don't make sense without it. For example, when applying risk weights, an EU bank has to treat a UK bank like another corporate rather than as a bank... and there are some situations where an EU bank has to treat UK property as basically worthless in the capital calculations, even residential property".*
>
> **UK Finance member**

The lack of positive equivalence determinations for the UK under Article 107(4) of the EU CRR has two immediate, negative consequences for EU-based banking groups:

1. **Higher Capital Requirements for Exposures to UK Banks:** Under Article 107(3) of the CRR, EU banking groups must treat their exposures to UK banks as higher-risk 'exposures to corporates' rather than lower-risk 'exposures to institutions'. The lack of EU equivalence determinations of the UK is reflected in EU firms' capital calculations, leading to artificially inflated risk weights and forcing EU parent banks to hold more capital against their UK operations than against operations in other third countries that have been deemed equivalent such as the US, Canada and Australia.

2. **Punitive Treatment of UK Property Collateral:** For lending secured on UK property, the lack of equivalence can lead to UK property collateral being treated as having no value for risk-weighting purposes. For example, under the foundation Internal Ratings-Based approach, EU groups must treat income-producing real estate exposures secured on UK residential property as unsecured. This means the risk weight is significantly higher than for secured exposures.

This situation exists notwithstanding the UK's decision to grant the EU full equivalence under CRR. That decision was grounded in a view that robust outcomes can be supported by well-calibrated equivalence determinations that can help minimise unnecessary inefficiencies while preserving high standards of supervision and resilience.

## A Pragmatic Approach: Prioritising Targeted, Technical Equivalence

These issues are not matters of politics or questions of strategic principle; they are technical distortions in the prudential framework that generate unnecessary inefficiency and penalise not only UK banks, but EU banks as well. A pragmatic approach would recognise that targeted equivalence in this area is not about reopening broader debates on market access, but about correcting a specific distortion that undermines efficiency and the effective allocation of capital across Europe.

A sensible policy response would therefore focus on addressing this specific distortion on its merits.

Accordingly, an EU equivalence decision would represent a focused, practical step to reduce unnecessary frictions, improve prudential coherence and deliver mutual benefits for both the EU and the UK. Precedent in this area has already been set by the EU, where to date it has granted some level of CRR equivalence to over 25 jurisdictions, including Japan, Australia, China and Singapore.

# Medium-Term Proposal 3: A Pragmatic & Targeted Approach to Equivalence in Other Areas

Certain aspects of the EU's equivalence framework provide a useful and established basis for making targeted, technically grounded decisions in respect of the UK in areas where there is a clear and mutually beneficial case for doing so. It would make sense for full use of these tools to be made where they can reduce unnecessary complexity and support the smooth functioning of cross-border financial activity between the UK and EU.

## The Value of the EU's Current Equivalence Framework

Certain aspects of the EU's equivalence framework provide a strong and well-tested foundation for making technically robust assessments of the UK's regulatory regime. Where applied, these mechanisms can meaningfully reduce duplicative compliance burdens for both UK and EU-based financial services firms by recognising comparable regulatory outcomes and avoiding unnecessary parallel requirements. In a limited number of areas, equivalence decisions can also facilitate targeted market access, helping to preserve efficient cross-border activity while maintaining high standards of supervision and financial stability.

The UK's regulatory regime remains closely aligned with EU standards in many areas, reflecting shared origins and continued adherence to international norms. This means that, where there is a clear and mutually beneficial case, existing equivalence tools offer a credible pathway for targeted decisions that are in both jurisdiction's interests and to the benefit of the European financial ecosystem.

## A Targeted and Outcomes-Based Strategy for Advancing Equivalence

A pragmatic and deliverable path forward on equivalence should be pursued, which requires a targeted, technical and outcomes-based approach. To unlock progress from an EU perspective, the UK and EU should work deliberately to de-politicise the process, restoring its focus on regulatory substance, supervisory cooperation, and shared international commitments.

At the core of this approach is a commitment to concentrate on specific, tightly defined areas where equivalence is clearly in both sides' mutual interests. This means prioritising determinations that deliver tangible, near-term benefits, which include those that reduce duplicative compliance burdens, improve the efficiency of cross-border operations, and strengthen the resilience of the wider European financial system. These are areas where regulatory outcomes between the UK and EU are already closely aligned, where supervisory practices remain compatible, and where both jurisdictions continue to operate within the same global standards architecture which a significant degree of their regulatory regimes are based on.

**Case Study: The Emerging Challenge of ESG Ratings Providers**

A prime example of where this targeted approach is needed is in the regulation of ESG ratings providers.

- **The Shared Goal:** The EU is establishing a new authorisation and supervision regime for ESG ratings providers to improve the transparency, reliability, and comparability of their products. The UK is developing its own, similar regime with the same objectives.
- **The Risk of Fragmentation:** Without mutual recognition or an equivalence decision, an ESG ratings provider would need to be authorised and supervised separately in both the UK and the EU to serve clients across both markets. This would force them to operate under two similar but distinct compliance frameworks.
- **The Negative Consequences:** This would fragment the market for ESG data and analytics, increase costs for both providers and users (such as asset managers and investors), and reduce the choice of providers available. This directly undermines a core objective of the Savings and Investments Union, which is to provide investors with better and more comparable information.

**The Path Forward: A Pipeline of Technical Equivalence Files**

The problem of ESG ratings is a blueprint for a new approach. A targeted equivalence decision in this area would be a clear win-win, ensuring investors have seamless access to a wide range of providers while maintaining high regulatory standards.

This model should be the start of a new era of collaboration on ESG matters.

## Identifying Industry's Equivalence Priorities: Establish a Dedicated Working Group

The EU-UK Forum should be mandated to establish a dedicated Working Group to identify and develop a pipeline of potential equivalence determinations on the EU side, and ORR determinations on the UK side, for consideration by the respective authorities. This group would assess specific areas where the UK and EU regulatory frameworks deliver comparable outcomes, and where an equivalence or recognition determination could reduce unnecessary friction. The structured exchanges and technical analysis on this would play an important role in informing and supporting equivalence and recognition decisions taken by the relevant authorities.

This approach offers several advantages:

- **It is Pragmatic:** It focuses on addressing specific, evidence-based issues where regulatory frictions can be clearly identified and mitigated, rather than reopening broader political debates or revisiting settled questions. By grounding discussions in technical analysis and practical market impacts, it promotes a pragmatic, outcomes-oriented dialogue that can deliver meaningful improvements for firms and markets on both sides of the Channel.

- **It is Mutually Beneficial:** It directly addresses costs and inefficiencies that affect both UK and EU-based firms and investors, including duplicative compliance requirements, barriers to market access, and avoidable operational complexity. By targeting these frictions, it can help lower the cost of cross-border activity, improve capital allocation, and enhance the competitiveness and attractiveness of both markets, ultimately delivering tangible benefits to end-users such as businesses and savers.
- **It Builds Trust Incrementally:** Each successful technical equivalence decision can serve as a foundational building block, helping to further build regulatory confidence and political goodwill necessary to tackle more complex issues in the future.

By adopting this targeted and methodical approach, the UK and EU can move beyond the current impasse and begin the practical work of building a more efficient and integrated European financial market. Progress achieved on individual technical files can, over time, contribute to a more streamlined and better-functioning European ecosystem, while respecting the autonomy of each side's regulatory framework.

# Medium-Term Proposal 4: UK-EU Member State Financial Innovation & Regulatory Collaboration Framework

Building on the successful models of regulatory sandboxes and intergovernmental competitiveness labs, there is a significant opportunity to establish a flexible UK-EU Member State framework for collaborative financial innovation. This framework would enable the UK and willing EU Member States to partner on project-specific initiatives, testing and scaling innovative financial and regulatory solutions in controlled, cross-border environments. It would address the inherently cross-jurisdictional nature of key financial innovations and foster mutual regulatory learning.

Importantly, this approach is not intended to detract from broader UK-EU collaboration; rather, it seeks to complement it by working with forward-leaning Member States to develop new ideas and practical models, which can then be taken forward through the appropriate UK-EU channels.

The ultimate objective is to progressively evolve these initiatives into a permanent and institutionalised pillar of the UK-EU financial services relationship over time.

## The Rationale: Cultivating Innovation & Trust through Cross-Border Engagement

Given the international nature of financial services, especially in the UK and the EU, exploring innovations not just at the domestic but also at the international level can play an important role in unlocking scalable cross-border opportunities, strengthening market integration, and reinforcing global competitiveness. A collaborative framework would:

- **De-Risk and Scale Innovation:** Allow firms to test and refine products in live, supervised, cross-border environments, gaining legal and regulatory certainty before a full-scale launch. This practical approach enables validation of both technical performance and compliance with rules across jurisdictions, facilitating the cross-border scaling of successful initiatives.

- **Enable Mutual Regulatory Learning:** Provide a real-world, evidence-based setting for the UK's FCA and PRA and their respective EU counterparts to jointly observe and assess the practical application of distinct regulatory philosophies (e.g., the UK's outcomes-based FSMA model versus the EU's single rulebook) to shared innovative use cases.
- **Build Trust from the Bottom Up:** Foster and further deepen technical-level relationships and confidence between supervisory authorities through structured, hands-on collaboration. Successful technical cooperation, even on a small scale, can create a strong foundation for even more ambitious forms of cooperation in other areas.
- **Pragmatism and Flexibility:** Allow the UK to partner with one or more willing EU Member States on specific projects without requiring new formal treaties or unanimous agreement from all 27 Member States. This navigates institutional constraints more flexibly, creating space for timely, focused collaboration on shared priorities with a "coalition of the willing".

### The Mechanism: A Structured Framework for Project-Specific Collaboration

This framework can be structured to guide collaboration from initial project identification through to evaluation and potential scaling. It would integrate the flexibility of regulatory sandboxes with the strategic coordination of competitiveness labs, enabling firms and regulators to co-develop and test solutions within controlled, real-world cross-border environments under joint supervisory oversight:

- **Identify Aligned Partners and Projects:** The UK Government, in partnership with industry, would identify strategically aligned EU Member States and specific, narrowly defined pilot projects of mutual interest, focusing on areas with strong technical and strategic alignment. This approach is designed to support broader UK-EU collaboration by engaging forward-leaning Member States to develop ideas that can later be advanced through established UK-EU channels.
- **Establish Project-Specific MoUs:** Relevant regulatory authorities (e.g., the UK's FCA and PRA, and their counterparts in willing EU Member States) would sign a Memorandum of Understanding for the sole purpose of the pilot. These MoUs would define the project's scope, duration, success metrics, information-sharing protocols, and applicable regulatory parameters or waivers.
- **Joint Supervisory Teams and Observer Status:** Joint teams of supervisors from both jurisdictions would oversee the pilot. To ensure transparency, align with broader EU objectives, and facilitate potential scaling, the European Commission and relevant ESAs would be invited to participate as observers.
- **Leverage Existing EU Frameworks:** Explore pathways to collaborate by leveraging existing EU frameworks, such as through amendments to the EU AI Act to allow third-country participation in Member State sandboxes, or by expanding the DLT Pilot Regime to enable cross-border collaboration with the UK.
- **Joint Evaluation and Reporting:** Upon completion, participating regulators would jointly publish a report on the pilot's outcomes, providing evidence-based recommendations for wider implementation and policy development.

## What Can Be Achieved

By launching this collaborative framework, the UK can engage with EU Member States through active partnership and shared problem-solving, co-designing practical solutions to common challenges. This approach reframes the relationship

in a constructive, forward-looking manner, placing greater emphasis on cooperation and delivery. As a relatively low-risk, high-reward initiative, it offers the potential to generate tangible near-term benefits while building momentum for deeper engagement. Over time, it could provide a compelling proof of concept for a more innovative, trust-based and collaborative phase in the UK-EU financial services relationship, producing invaluable real-world data and blueprints for permanent, workable cross-border frameworks.

### Potential Pilot Project 1: A UK-Ireland Tokenised Settlement Sandbox

A prime candidate for an initial project would be the establishment of a joint sandbox focused on addressing the cross-border challenges associated with tokenisation, in particular for wholesale settlement using tokenised deposits.

- **The Sandbox's Role:** A UK-Ireland sandbox would provide a controlled environment in which to design and test practical solutions to these emerging challenges. Participating UK and Irish banks could trial the use of Sterling and Euro denominated tokenised deposits to settle tokenised securities transactions between the two jurisdictions. This would enable both jurisdictions to explore key issues such as interoperability between platforms, legal and regulatory treatment, settlement finality, liquidity management and risk mitigation, all while generating real-world evidence to inform future policy and support the development of scalable cross-border frameworks.
- **The Outcome:** The sandbox would produce invaluable real-world data on the risks and benefits of cross-border tokenised settlement, grounded in practical application rather than theoretical modelling. This would support the development of evidence-based recommendations for a permanent, workable cross-border framework to be shared with EU institutions and Member States as a potential model for broader adoption.

### Potential Pilot Project 2: A UK-Germany AI Sandbox for Anti-Money Laundering

Another pilot project could focus on using Artificial Intelligence to enhance the detection of cross-border financial crime.

- **The Challenge:** Banks operating in both the UK and Germany may want to use sophisticated AI models to detect complex money laundering networks that span both jurisdictions. However, they face significant legal uncertainty about how to train a single AI model using customer data from both the UK and Germany, due to differing interpretations of data privacy under the GDPR, model governance, and financial regulation.
- **The Sandbox's Role:** A UK-Germany cross-border sandbox would be established under a joint MoU between the FCA, PRA, BaFin, and the relevant data protection authorities, as well as the EU Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA). Participating UK and German banks would be permitted to test a shared AI-powered transaction monitoring system in this controlled environment.
- **What it would achieve:** The joint supervisory team would provide guidance on how data can be pooled and used in a legally compliant manner for the specific purpose of the test. They would monitor the model's fairness, accuracy, and effectiveness, generating invaluable data on supervising cross-border AI systems.
- **The Outcome:** The project would produce a proven, evidence-based blueprint for how to deploy AI in AML on a cross-border basis. The findings would provide a model for a permanent regulatory framework that could be scaled across the EU, benefiting the entire European financial system in the fight against illicit finance.

# Long-Term Proposals

# Long-Term Proposal 1: A UK-EU Financial Services Agreement

The long-term goal for the UK-EU financial services relationship should be a bespoke, legally binding bilateral financial services agreement that provides a stable and predictable framework for market access beyond what the EU's and the UK's unilateral equivalence and recognition regimes allow for. This would create a durable partnership fit for the 21st century, reflecting the scale, sophistication and strong interconnectedness of the UK and EU financial markets. There is a real opportunity for both the UK and the EU to build this relationship on leading best practice, drawing on models that demonstrate how major financial centres can cooperate while retaining full regulatory autonomy. Crucially, the foundation (which should be built on) for such an ambition already exists: the BFSA signed between the UK and Switzerland.

## Understanding the Model: The UK-Switzerland Berne Financial Services Agreement

The BFSA is a first-of-its-kind, treaty-based agreement that establishes a new paradigm for cross-border financial services trade between two interconnected European financial centres, each with a high degree of regulatory standards. Its central innovation is its foundation on outcomes-based mutual recognition in financial services, the first of its kind.

The BFSA represents a fundamentally different model from both the EU's equivalence regime and the UK's own ORRs. In this respect, the BFSA is a treaty-based commitment between two sovereign partners, which provides a level of legal certainty, durability and stability that unilateral or administrative regimes cannot match. Crucially, its defining feature is that it is outcomes-based, so rather than relying on traditional mechanisms such as detailed, rule-by-rule equivalence assessments or unilateral recognition, the BFSA is anchored on a shared commitment to regulatory outcomes. It recognises that while the UK and Swiss regulatory frameworks may be different in their specific drafting, they deliver *equivalent outcomes* in terms of financial stability, investor protection, and market integrity. This allows for both jurisdictions to maintain rules that are tailored to their respective markets and regulatory philosophy, whilst still ensuring that they achieve the same regulatory outcomes both jurisdictions are committed to. To support this model, there is a joint committee responsible for overseeing the agreement and managing any future issues that may arise, ensuring both a structured and collaborative approach. The BFSA has a broad remit, including in the areas of investment services, central counterparties and corporate banking, to name a few. As one industry stakeholder noted, the BFSA is a *"very sensible and actually a better platform for developing a mutually beneficial partnership".*

## The Case for a UK-EU Agreement: A Desirable and Mutually-Beneficial Goal

A UK-EU agreement based and then building upon the BFSA model would be a clear win-win for the wider European market:

- **It Would Provide Stability and Predictability:** By replacing unilateral, time-limited decisions with a durable, treaty-based framework, it would end the cycle of cliff-edges for critical issues like CCP clearing and data adequacy. This shift towards a more long-term, outcomes-based partnership would give firms the confidence to better commit to multi-year investment strategies.
- **It Would Respect Regulatory Sovereignty While Reducing Friction:** An outcomes-based approach would recognise that the UK and EU regimes will not dynamically align, while still providing

a credible and structured basis for deep regulatory cooperation. By focusing on whether shared high standards and comparable regulatory outcomes are achieved, rather than requiring identical rulebooks, it enables both jurisdictions to tailor their frameworks to the specific needs of their own markets without undermining cross-border activity. This model supports regulatory autonomy on both sides, yet maintains the conditions necessary for stable, friction-free trade in financial services. In doing so, it offers a pragmatic pathway to sustained market access which would strengthen the overall functioning and competitiveness of the wider European financial ecosystem.

- **It Would Solve Costly Technical Problems:** A more structured UK-EU framework would also provide a constructive means of addressing the types of unintended frictions highlighted in this report, including the consequences of the capital treatment applied to EU banks' exposures to UK institutions under the CRR. A treaty-based, outcomes-focused arrangement would enable both sides to review such issues in a transparent and evidence-based manner, ensuring that prudential requirements (as an example) reflect genuine risk considerations rather than the by-products of unilateral decision-making.
- **It is an Achievable Goal:** While ambitious, such an agreement could be achievable in the long-term because the UK and EU start from a point of near-identical regulation and share a deep commitment to adhering to the same international standards. Crucially, it serves the EU's own strategic interests by providing stable, reliable access to the UK's deep capital pools, which are essential to meeting the multi-trillion-Euro funding gaps identified in the Draghi and Letta reports.

# Long-Term Proposal 2: A UK-EU-Led Pan-European Capital Markets Union

The creation of a truly pan-European Capital Markets Union (CMU), which is an integrated ecosystem of deep, liquid and interconnected capital pools that spans the UK, the EU, and by extension, the EEA and EFTA nations, would provide significant benefits to the European market. Such a framework would form the backbone of a pan-European financial services ecosystem, enabling businesses and consumers on both sides of the Channel to draw on the full strength of both the UK's global financial centre and the EU's vast Single Market. At its core, this vision is about building a new, durable UK-EU partnership; one that moves beyond fragmentation and instead leverages complementary strengths to support investment, innovation and competitiveness across the continent. Anchored by a robust UK-EU agreement, it would act as a powerful engine for long-term growth across Europe.

## The Strategic Imperative

The case for this vision is driven by strategic necessity. In a world of increasing geopolitical competition and vast funding needs, a fragmented European capital market is a competitive disadvantage for European market participants. A fully integrated pan-European market would deliver transformative benefits:

- **Unlocking Capital at an Unprecedented Scale:** The EU faces a multi-trillion-euro funding gap to meet its strategic goals for the green and digital transitions, energy security, and defence. As the Draghi and Letta reports make clear, this cannot be met by EU financing sources alone. A pan-European CMU, connecting the EU's significant economic base with the UK's deep, global capital pools and risk appetite,

is one of the most effective mechanisms to mobilise private investment from across the world on the scale required.

- **Enhancing Global Competitiveness:** Together, the UK and EU would form a financial bloc with the scale and liquidity capable of further competing with the United States and emerging Asian financial centres. By pooling market depth and reducing fragmentation, such a bloc would become a magnet for global capital, offering international investors a more attractive and efficient platform for raising funds.
- **Reducing Costs and Driving Efficiency:** A seamless market would remove the costly frictions and duplicative compliance burdens that currently exist for firms operating across the UK and EU. It would allow for more efficient allocation of capital, deeper liquidity pools, and greater economies of scale.
- **Strengthening Financial Stability:** A single, well-regulated, and deeply integrated market is inherently more resilient than a collection of smaller, fragmented ones. It allows for more effective risk diversification and more coordinated supervision of cross-border risks. This would result in lower costs and a more competitive environment for innovation, benefits that would flow to corporates, investors and end clients across the continent.

## The Blueprint: How It Would Work

This vision is not seeking to return the UK to the EU's Single Market, nor to recreate the institutional structures that existed before Brexit. Instead, it proposes a new model based on a network of interoperable markets built on a foundation of mutual recognition in financial services. The cornerstone of this pan-European CMU would be a bespoke UK-EU Financial Services Agreement, as detailed previously. This agreement, modelled on the outcomes-based principles of the BFSA, would serve as the central pillar, providing the legal and regulatory foundation for seamless cross-border activity while preserving each jurisdiction's autonomy over rule-making. From there, the framework could be progressively extended to include other key partners like Switzerland, creating a cohesive European financial ecosystem with the scale, liquidity and regulatory coherence to compete globally. If this is successful, it could become a model with global appeal over time and attract interest from beyond Europe.

Key features would include:

- **A Treaty-Based Framework:** The relationship would be governed by legally binding agreements, providing long-term certainty and predictability. Rather than relying on revocable, discretionary determinations that can be withdrawn with limited notice, a treaty-based framework would lock in shared commitments and create a stable environment for firms planning multi-year investments.
- **A Joint Governance Body:** A dedicated UK-EU committee, modelled on the structure used in the BFSA, would serve as the central governance body for the agreement. It would oversee the implementation of the agreement, manage disputes through clearly defined escalation processes, and act as the primary forum for dialogue on emerging regulatory developments.
- **Interoperable Market Infrastructure:** The system would be designed to ensure seamless technical interaction. This would include:
  - A permanent, cooperative oversight model for systemically important infrastructure like CCPs.

- Linked or fully interoperable consolidated tapes for data transparency across the entire area.
- A framework for UK issuers to voluntarily provide data to the **European Single Access Point** to increase visibility to EU investors.
- Mutually recognised standards for **digital assets and payments**, enabling innovations like tokenised deposits to operate cross-border.

**Case Study: Unlocking Investment Through Data – Integrating UK Issuers into the European Single Access Point**

The EU is creating the European Single Access Point (ESAP), a centralised, machine-readable database modelled on the US Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system that aggregates existing financial and sustainability disclosures from EU companies to improve transparency, comparability, and investor access. However, because the ESAP will only include EU-based issuers, it risks creating a new "digital border" in a highly interconnected European market, forcing investors to navigate separate systems for EU and UK entities and increasing search costs, friction, and inefficiency.

Allowing UK issuers to participate voluntarily would be a clear mutual benefit:

- EU investors would gain seamless access to UK data.
- UK companies would gain greater visibility to Europe's investor base.
- The broader market would move closer to a more integrated pan-European capital ecosystem.

This can be achieved without political complexity by establishing a voluntary opt-in for third-country issuers based on a technical "comparability" assessment of disclosure standards; an approach with strong precedents in EU law, and by using the EU-UK Forum to ensure interoperability. Taken together, this would transform a potential source of fragmentation into a practical, forward-looking example of UK-EU cooperation that strengthens capital markets across Europe.

## The Pathway: How These Long-Term Objectives Could Be Brought About

These long-term goals can only be achieved through the successful implementation of the short- and medium-term priorities outlined in this report. The pathway is a phased journey of trust-building:

- **Phase 1: Building the Foundation (Short-Term):** By maximising the value of the EU-UK Forum and securing non-time limited solutions for critical infrastructure like CCPs and data adequacy, the UK and EU can establish a baseline of stability and prove that practical cooperation works.
- **Phase 2: Deepening Cooperation (Medium-Term):** Successfully addressing targeted frictions (like the CRR equivalence gap), creating a mobility agreement, and launching joint innovation projects through a structured framework for project-specific collaboration, integrating elements from both competitiveness labs and regulatory sandboxes, would deliver tangible mutual benefits. Each success would serve as a proof-of-concept, building the political capital and regulatory confidence needed for a more ambitious arrangement.
- **Phase 3: Formalising the Partnership (Long-Term):** With a foundation of trust and a track record of successful collaboration, the political conditions would be ripe to negotiate the cornerstone UK-EU Financial Services Agreement. Once this is in place, it can be extended through similar agreements with other key European partners, culminating in a truly pan-European Capital Markets Union.

By embarking on this path, the UK and EU can move beyond a relationship defined by post-Brexit fragmentation and towards a strategic partnership that secures their shared economic prosperity for decades to come.

# Conclusion: Seizing the Moment for a Stronger Future

A decade after Brexit, the UK-EU financial services relationship stands at a crossroads: still deeply interconnected, yet increasingly constrained by fragmentation and underused mechanisms for cooperation. The reality is clear; the UK and EU continue to operate as a single, highly networked financial ecosystem. Strengthening that connectivity is not about looking backwards; it is essential to driving future growth, competitiveness and resilience throughout Europe in a more volatile global environment.

The roadmap set out in this report is rooted in what we believe is in the shared interest of the European economy. It asks nothing of either side that does not serve its own strategic objectives. Non-time-limited CCP equivalence and an enduring data adequacy decision are good for EU financial stability and EU firms. The UK's interest in securing them mirrors the EU's interest in granting them. Upgraded cooperation through the EU-UK Forum, with working groups on issues such as transaction reporting, digital assets and market access, reduces costs and complexity for firms on both sides of the Channel. A services mobility agreement helps UK, EU and global firms deploy their best talent more efficiently across their integrated operations. These are not concessions in either direction. They are joint wins waiting to be taken.

The priority now is delivery. What is needed most is political will to match the economic logic of collaboration. Many of the mechanisms already exist: the annual UK-EU Leaders' Summit, the MoU and the EU-UK Forum, the equivalence and ORR frameworks. What is missing is the political mandate to use them ambitiously. Embedding financial services as a strategic item at the UK-EU Leaders' Summit would provide that mandate, give the EU-UK Forum the political cover to move from dialogue to delivery, and signal to markets and stakeholders that both the UK and EU are serious about the next phase of this relationship.

In the long-term, the prize could be even larger and a framework for mutual recognition in financial services that supports a truly pan-Europea capital market could deliver this.

Ultimately, the choice is not between cooperation and independence, but between managed interdependence for the benefit of Europe and growing fragmentation. By choosing to work together where it matters, the UK and EU can amplify their global influence, mobilise capital more effectively, and build a more dynamic, innovative European financial system. The opportunity is immediate, and the cost of inaction is real.

# Appendix 1: Contributors

This report draws on extensive interviews with a broad range of stakeholders, including members, think tanks and European banking associations, as well as input from UK Finance's International Affairs Committee, which is made up of senior representatives from member institutions. A full list of contributors is set out below.

Association for Financial Markets in Europe

Australia and New Zealand Banking Group Ltd

Association of German Banks

Banking & Payments Federation Ireland

Bank of America Merrill Lynch International Limited

Barclays Bank Plc

BNP Paribas

BNY

Two senior scholars at Bruegel

Centre for European Policy Studies (CEPS)

Citigroup Global Markets Limited

Commerzbank

Deutsche Bank AG Group

Dutch Banking Association

Euroclear UK & International

European Banking Federation

Finance Denmark

Fnality UK Limited

Ghana International Bank plc

Goldman Sachs

Handelsbanken

HSBC Bank Plc

ING Bank N.V.

JP Morgan Chase Bank Group

Macquarie Group

Mizuho Bank Ltd

Monzo Bank Limited

Morgan Stanley & Co. International PLC

NatWest Bank

Nomura International plc

Permanent Representation of the Kingdom of the Netherlands to the European Union

Santander UK Plc

Societe Generale Group

Standard Advisory London Ltd

Standard Chartered

State Street Bank and Trust Company

Sumitomo Mitsui Banking Corporation Europe Limited

Swift Ltd

Swiss Finance Council

TD Securities Ltd

The Bank of Nova Scotia

The Luxembourg Bankers' Association

UBS

Wise

Worldpay Group plc

# Appendix 2: Glossary of defined terms

The following is a glossary of defined terms used in this document.

| | |
|---|---|
| **AI** | Artificial intelligence |
| **AML** | Anti-money laundering |
| **AMLA** | Anti-Money Laundering Authority |
| **BCBS** | Basel Committee on Banking Supervision |
| **BFSA** | UK-Switzerland Berne Financial Services Agreement |
| **BIS** | Bank for International Settlements |
| **CCI** | Consumer Composite Investment |
| **CCP** | Central counterparty |
| **CFT** | Countering the financing of terrorism |
| **CMU** | Capital Markets Union |
| **CRD** | Capital Requirements Directive |
| **CRD VI** | CRD as amended by Directive (EU) 2024/1619 |
| **CRR** | Capital Requirements Regulation |
| **CSD** | Central Securities Depository |
| **CSRD** | Corporate Sustainability Reporting Directive |
| **EBA** | European Banking Authority |
| **ECB** | European Central Bank |

| | |
|---|---|
| **EEA** | European Economic Area |
| **EFTA** | European Free Trade Association |
| **EMIR** | European Market Infrastructure Regulation |
| **ESAP** | European Single Access Point |
| **ESAs** | European Supervisory Authorities |
| **ESMA** | European Securities and Markets Authority |
| **ESRS** | European Sustainability Reporting Standards |
| **EU-UK Forum** | Joint EU-UK Financial Regulatory Forum |
| **FCA** | Financial Conduct Authority |
| **FSB** | Financial Stability Board |
| **FSMA** | Financial Services and Markets Act 2000 |
| **GDPR** | General Data Protection Regulation |
| **IOSCO** | International Organization of Securities Commissions |
| **ISSB** | International Sustainability Standards Board |
| **MiCA** | Markets in Crypto-Assets Regulation |
| **MiFIR** | Markets in Financial Instruments Regulation |
| **MoU** | Memorandum of Understanding |
| **NBFI** | Non-bank financial institution |
| **NBLP** | Non-bank liquidity provider |
| **ORR** | Overseas Recognition Regime |

| | |
|---|---|
| **PRA** | Prudential Regulation Authority |
| **PRIIPs** | Packaged Retail and Insurance-based Investment Products |
| **PSD** | Payment Services Directive |
| **PSR** | Payment Services Regulation |
| **SEPA** | Single Euro Payments Area |
| **SMA** | Services Mobility Agreement |
| **TCA** | EU-UK Trade & Cooperation Agreement |
| **UK SRS** | UK Sustainability Reporting Standards |

# Endnotes


1 Prime Minister and Leader of the Labour Party Keir Starmer's speech in Central London (11 May 2026) – The Labour Party

2 UK trade in services: service type by partner country, non-seasonally adjusted – Office for National Statistics

3 The interconnectedness of EU and UK financial markets

4 Enrico Letta report: Much More Than a Market

5 The Draghi report on EU competitiveness

6 EBF Response to Targeted Consultation on the Competitiveness of the EU Banking Sector

7 The interconnectedness of EU and UK financial markets

8 The King's Speech 2026: background briefing notes

9 Joint statement following a meeting between President of the European Commission, Ursula von der Leyen, and UK Prime Minister, Keir Starmer

10 UK Prime Minister's remarks: 1 April 2026

11 MoU between the European Supervisory Authorities and the UK Financial Authorities on cooperation, exchange of information and coordination of oversight activities of critical ICT third-party service providers located in the EU and the UK

12 Declarations referred to in the Council Decision on the signing on behalf of the Union, and on a provisional application of the Trade and Cooperation Agreement and of the Agreement concerning security procedures for exchanging and protecting classified information

13 UK-EU Memorandum of Understanding on Financial Services Cooperation

14 HM Treasury equivalence decisions for the EEA States – 9 November 2020

15 Equivalence of non-EU financial services frameworks

16 Targeted consultation on the competitiveness of the EU banking sector 2026

17 EBF Response to Targeted Consultation on the Competitiveness of the EU Banking Sector

18 FCA discussion paper DP24/2: Improving the UK transaction reporting regime; FCA consultation paper CP25/32: Improving the UK transaction reporting regime;

19 ESMA Interim Report on the Call for Evidence on a comprehensive approach for the simplification of financial transaction reporting

20 FCA consultation paper CP25/32: on improving the UK transaction reporting regime

21 AFME Response to Targeted Consultation on the Competitiveness of the EU Banking Sector

22 EBF Response to Targeted Consultation on the Competitiveness of the EU Banking Sector

23 Department for Science, Innovation and Technology — Written Evidence to the House of Lords EU Affairs Committee inquiry on UK-EU data adequacy (DAT0013)

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