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16 December 2017

Dear Prime Minister and Chancellor,

Congratulations on successfully negotiating a move to the second phase of the Article 50 withdrawal negotiations with the EU. This is the first substantive evidence that we can reach agreement in the interest of the citizens of the UK and EU 27.

As we move to the next and more positive phase of negotiation - defining the future relationship, we urge the UK Government to keep the following practical considerations in mind, relating to our world class financial services industry.

**The bold new relationship you have heralded must focus on the financial services sector**

No existing free trade agreement in the world focuses on services, let alone financial services. We support the Government's commitment to a deep and ambitious new partnership with a market that currently represents the single largest source of international customers for UK financial services. A high degree of mutual cross-border market access is fundamental to the continued success of our financial services sector – and to the success of the economies and citizens which our sector serves in the UK and the EU 27. The UK must be ambitious in seeking mutual cross border access to markets, well beyond the scope of any existing trade agreements. CETA is an interesting template, but given the UK and the EU 27 start with a position of regulatory convergence that the UK and Canada didn't, we should seek to be far more ambitious.

Neither convergence nor divergence between EU and UK regulation should be seen as aims. The question should be: How do we maximise the economic benefits to citizens, investors and businesses and what forms of regulatory alignment and supervisory cooperation could ensure those benefits are achieved? Pragmatic decisions to align the two regimes from a regulatory perspective, supported by close cooperation on supervision should be seen not as concessions, but as mechanisms to maximise benefits and choice within a deep regional capital market for the benefit of citizens and our economies.

**Businesses and citizens need to be confident as soon as possible that there will be stable and secure transition arrangements to an acceptable end state**

The next stage of the negotiations will address both the end state relationship and how the UK and the EU will transition to it. It is in the interests of both the UK and EU27 to avoid a cliff-edge and an end state which doesn't preserve most of the existing benefits of cooperation. The proposed solution which involves

extending the application and legal effect of the EU “acquis” in the UK for a time-limited period is sensible and would provide an orderly transition.

For the trillions of euros in current financial services contracts between the EU and the UK, a sensible transition agreement would help minimise disruption. The use of transitional measures will enable the UK and the EU to bridge to the new trading relationship whilst minimising the risk to financial stability and disruption to EU and UK businesses and citizens. We must avoid an unnecessary substantial loss of GDP to citizens of the UK and the EU 27.

Clear agreement on the terms of transitional arrangements should be secured and clarified as soon as possible in 2018. But to be effective for business, any political agreement will need to be reinforced by regulators and domestic governments to provide firms and customers with sufficient, reliable legal certainty to avoid unnecessary and economically wasteful preparation against a ‘cliff-edge’ risk. Governments will need to find a way of allowing financial regulators to exercise forbearance from insisting on the authorisation and contingency planning that would otherwise follow from an absence of legally binding transition arrangements.

UK Finance and its members will continue to be positive, constructive and practical thinking about how to best effect transition and build a bold new services oriented trade agreement to the benefit of all EU citizens.

We take this opportunity to wish you and your families a peaceful Christmas and successful 2018.

Yours sincerely,



**Bob Wigley**  
Chair, UK Finance



**Stephen Jones**  
Chief Executive, UK Finance