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***“The challenges of Brexit for financial services”  
Opening speech at a lunch event organised by the European Parliamentary  
Financial Services Forum***

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I am pleased to see here many familiar faces and to see around me and to welcome a distinguished panel of speakers, mostly from the asset management industry, to discuss the implications of Brexit.

We have here Julie Patterson, Regulatory lead in Asset Management at KPMG, then Hans Janssen Daalen, Director General of the Dutch Fund and Asset Management Association, Jerry Moriarty, CEO of the Irish Association of Pension Funds, and James Walsh, Policy Lead on Engagement, EU and Regulation, at the Pensions and Lifetime Savings Association.

I would like to open the debate by mentioning that Brexit is confronting us with new challenges, on top on the issues we are dealing with in the area of financial services and that have been there for long. We have built a single market, integrated, highly regulated, based on a single rulebook, well supervised, strictly providing financial stability, protecting consumers and providing a level playing field.

In general, with Brexit, some loss of the integration with the UK is obvious. Since the 2008 crisis we have been investing heavily in reducing fragmentation, not only within the EU but also across the Atlantic and globally. In the years to come we can assume that the EU will continue in this direction and minimising fragmentation will be a challenge calling for a more European approach.

Among the twenty-seven, we will have to avoid a regulatory race to the bottom. This would reduce access to capital and increase instability. There might be a pressure for regulatory arbitrage and for countries to change their frameworks in order to attract activity after Brexit. We will have to invest in incentives to cooperate.

Therefore, we have to accelerate the investment in financial markets integrity, harmonization of rules, enforcement of rules and consistent supervision without, at the same time, increasing too much bureaucratic requirements that might have devastating impact on capital markets. In the short term, we should avoid an abrupt departure from the UK, which can produce problems and general instability.

There will be consequences of Brexit for the financial services markets.

By definition, the UK will no longer be bound by EU law and passporting will not be continued. The UK will be a third country regarding financial products and will lose rights of home country regarding control. UK supervisory authorities will no longer participate in decisions of EU supervisors. As regards the very concrete implications of Brexit, I would like to encourage you to read the notices that the European Commission has put on its website concerning the consequences of Brexit in some areas.

There are clear risks from Brexit. The biggest concerns relate to the loss of access to British CCPs for EU clearing members and clients. CCPs should work on that issue. There are risks from Brexit in the area of trading as well, with the impact on financial market participants from the loss of access to British trading venues.

There is finally the uncertainty related to existing long-term contracts concluded under the passporting regime. They will stay valid but some regulatory actions can impact the execution of contracts or capacity to deliver services. Maybe some financial institutions can adapt their contracts but it is impossible to find one horizontal solution for all actors at EU level. So, we need a case by case approach.

A big chunk of responsibility in mitigating these risks lies with the firms, with their contingency planning and preparedness for Brexit.

There are contingency plans that are required from financial market participants by supervisors. In this regards, not all firms are at the same level of preparedness, with large US firms being the best prepared and small firms in general lagging behind.

What we can expect is that this contingency planning will involve decisions on relocation of activities, application for new licences or for the extension of existing licences, because branches from UK market entities will be branches of third countries, or adjustment of booking models

We need awareness raising and public action by supervisors and we need to avoid regulatory arbitrage and empty shelves.

And, as regards preparedness it is crucial to say that any transition period should be used to the fullest extent. Transition will be useless if it is seen as two more years for firms to do nothing. We have to remember that contingency planning is crucial even if transition is a status quo.

Then, a more specific challenge will relate to adapting our legal and supervisory framework to the new situation created by Brexit. This means reflecting on the future relationship between the UK and the EU as well as making targeted changes to our legislation when needs be.

The transition will mean the prolongation of the existing acquis. UK firms will keep passporting rights and a level playing field will be maintained. However, there will be no participation of UK authorities in EU institutions. They will maybe be able to be present on a case by case basis on issues referring to the UK.

The future framework for the relationship between the EU and the US will comprise three parts.

First, some fragments of a Free Trade Agreement can address some horizontal issues, like in CETA where there is a small chapter on financial services, dealing mostly with establishment and with the mechanism of prudential carve out.

Then there will be the organisation of regulatory cooperation

Here, we have CETA and US models. However, as you can imagine EU will keep its regulatory autonomy. So, the most probable is that some form of platform for EU and UK regulators to meet and discuss will be established.

And the last mechanism on which the future relationship will rely is equivalence. This system already works and there are more than one hundred decisions with about thirty countries.

However, there are a few weaknesses to this system. Equivalence can be recognized only in some areas which are envisaged in the European legislation. It is not horizontal, for example it does not exist in the area of deposits.

The decision by the European Commission to grant equivalence to a third country is an arbitrary, unilateral decision, proportionate, which can be easily withdrawn. It is always risk based, case by case. Then, once equivalence is granted, individual entities have to be registered and there is a memorandum of understanding as a mechanism for cooperation.

So, to make equivalence a fit basis for the future relationship with the EU and UK, we need some update of the third country provisions in the relevant pieces of legislation.

The Commission has started to work on that. They are looking into every piece of legislation where equivalence provisions might need to be updated and they have delivered proposals intended to address the cases of CCPs and investment firms and strengthen the applicable third country regime.

In this context, I would like to hear from you, representatives of the asset management industry, what are your expectations as to how the Brexit negotiations will develop over the next few months. I would also like to ask you what are the main cliff edge risks you see in the area of financial services in the case of a hard Brexit and how these should be avoided. I would also like to hear your views concerning the potential options for the future relationship between the UK and the EU27 in the

area of financial services and how you see the different options. Finally, I would like you to touch on the implications of Brexit for retail customers and capital markets across Europe, and the Capital Markets Union initiative.

Thank you.