IRSG NARRATIVE – EU STRATEGIC AUTONOMY AGENDA

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a **globally coherent regulatory** framework that will facilitate open and competitive cross-border financial services. It is comprised of practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues.

Open strategic autonomy background

In January 2021, the European Commission published a Communication on "The European economic and financial system; fostering openness, strength and resilience." The new strategy purports to shield the EU from unfair and abusive practices while enabling it to play a vital role in shaping global governance and developing mutually beneficial bilateral relations. The Communication outlines three pillars; 1) promoting the international role of the Euro, 2) strengthening the EU's financial market infrastructures, and 3) improving the implementation and enforcement of the EU's sanctions regime. The second pillar includes "…reducing the EU's excessive dependence on systemic third-country CCPs" and "reducing excessive overreliance on foreign financial institutions." The Communication posits the risks that in times of financial crisis, non-EU banks may choose to reduce their presence in the EU to refocus on their domestic market, which could hamper EU companies and Member States' access to capital market funding, risk management solutions and other financial services.

Related key actions concern the establishment of a working group to assess technical issues related to the transfer of euro clearing to EU CCPs, and a mandate for the European Banking Authority to study in detail the reliance on non-EU financial operators and funding in foreign currency, including identifying relevant drivers and the vulnerabilities for the EU financial system.

Recent Council conclusions provide more detail as regards strategic autonomy in financial services and the need for collaboration for an open international economic ecosystem. The EBA are understood to have kicked-off work on their report which will be finalised mid-year.

IRSG position

1. Following the pandemic, and in the context of an uncertain geopolitical environment, we fully understand the rationale to consider the resilience and self-sufficiency of the EU economy.
2. We also recognise that the UK departure from the EU creates a new context in which both the EU and UK will develop their own financial regulatory policy that is tailored to each jurisdiction's specific needs.
3. However, we are strong advocates of the benefits of open and integrated markets not least for EU and UK corporates, savers and investors, but also as regards the role of international finance to support the pandemic recovery and the twin transitions (climate and digital). There are also clear financial stability benefits in the scale, liquidity and diversification of cross-border activities.

4. Resilient and accessible capital markets continue to play a pivotal role and, in doing so, benefit both sides of the channel. The industry in the UK remains open to further our reciprocal sharing of expertise and knowledge on the matter. There are numerous instances in which learning from mutual experiences have proven to be advantageous. One example of that is seen through the positive collaboration and shared approaches to sanctions.
5. Cross-border risks to financial stability and investor protection need to be managed and controlled, but this should, and can, be done in such a way as to safeguard the economic benefits of integrated markets. Feasible and accessible mechanisms to support the continued flow of financial and supervisory data are a key element of safeguarding financial stability and transparency. Indeed, since the global financial crisis a whole edifice of financial regulation has been developed to ensure the spill-over risks of international financial markets can be managed in a cooperative and controlled way, precisely in order to prevent fragmentation and ring-fencing.
6. We recognise that the pursuit of unilateral interests can undermine effective multilateral cooperation. To ensure investor and consumer protection amongst others, supervisory cooperation is a key element that can safeguard both sides and in so doing limit concerns about spillover effects from crisis situations. In some cases, such as for systemically important CCPs, direct supervision, the direct application of local rules in addition to enhanced cooperation and exchange of information provides additional guarantees. If we are to both deliver a more sustainable financial system and retain the benefits that come from cross-border financial markets, the existing strong supervisory cooperation should be further enhanced.
7. Recommendation 1 of the European Commission's Communication on strategic autonomy places its emphasis on the completion of the Capital Market and Banking Union initiatives. The IRSG continues to support these endeavours, which constitute the best approach to bolstering internal market competitiveness. As such we believe both the union of banking and capital markets should be a means to competitiveness, rather than an objective in itself. Practical measures to integrate EU markets and to increase the efficiency of the marketplace will enhance resilience and should be preferred over legal measures seeking to prohibit or inhibit EU firms access to cross-border markets. These would mainly affect the competitiveness of the EU capital markets and banking ecosystems.
8. A CMU that is open and accessible to foreign risk management, capital and global liquidity will be better suited to delivering on the EU's policy objectives. If fully developed in the EU and open to (equivalent, highly regulated) third countries, it would support jobs and growth. An open approach, ensuring that Europe maintains its access to pools of global liquidity and financing, would go a long way towards realising the ambition of building thriving EU capital markets. This is entirely compatible with the EU increasing its competitiveness.
9. We support an end-state balance in which risks associated with interdependence are managed by strong risk management tools, cooperation and supervision, but where we avoid any decoupling of EU firms that would interrupt real economy financing and challenge long-standing and effective global norms associated with: outsourcing, consolidated risk management, portfolio management, data sharing, cross-border lending, trading and clearing. The increase in data localisation measures, which do not bring universal benefits, is resulting in varying standards of data security and customer solutions across jurisdictions. This can cause fragmentation which in turn reduces liquidity, makes it more difficult to

manage risks (both individually and at macroprudential level) and ultimately increases costs which impacts on customers both in the UK and EU.

10. If at a simple level strategic autonomy is about ensuring the EU has the financial and capital markets necessary to drive its economy and twin transitions, then central to success will be ensuring resilience and that it benefits from openness and access to global markets. Indeed, we were glad to hear Commissioner McGuinness state, in a recent speech, that the EU and the world are best served by an international economic and financial system based on openness and fair competition, while recognising the need for a sustainable arrangement that can benefit both supply and demand sides.