NEW FINANCIAL
Rethinking capital markets

THE INTERCONNECTEDNESS OF EU AND UK FINANCIAL MARKETS

ANALYSIS OF THE INTERCONNECTEDNESS OF EU AND UK BANKING, FINANCE, AND CAPITAL MARKETS IN THE CONTEXT OF THE COMMON EUROPEAN CHALLENGES OF INVESTMENT AND GROWTH

December 2025

By Maximilian Bierbaum and Christopher Breen

In partnership with:

> *Five years after the UK left the EU, cross-border financial flows between the two markets still account for a significant share of overall financial activity in both the EU and the UK. This experimental paper measures the interconnectedness of EU and UK financial markets before and after Brexit across 11 key metrics and makes five directional recommendations to encourage a closer relationship between the EU and the UK.*

Looking beyond the 'reset'

Despite all the noise in recent years, the EU and the UK are relatively similar markets facing largely similar challenges of investment and growth. With Brexit, the EU has lost its biggest and one of its deepest capital markets. But despite a post-Brexit regulatory push by the EU to encourage the relocation of some capital markets activity, the EU is still connected with the UK in many areas of the capital markets. At the same time, the EU remains the UK's largest economic neighbour and second-largest trade partner in financial services.

The interconnectedness of EU and UK financial markets remains a 'fact of life', and while there are many areas in which the EU and the UK need to develop and build their own capital markets to better support their economies, we think it is time for a more serious conversation about how both markets can work more closely together to address their common challenges.

This paper drills down behind the headline numbers and identifies i) the similar challenges facing the EU and the UK, and how capital markets can help address them; ii) the state of play in EU and UK financial markets; iii) the pre- and post-Brexit levels of interconnectedness of EU and UK capital markets; iv) the parallel reform agendas in the EU and the UK; and v) recommendations to foster a closer relationship - and ideas to help the financial services industry make the case for it.

The aim of this analysis is not so much to have all the answers but to inject some fresh perspectives and urgency into the debate on the relationship between EU and UK financial services. The dust has settled after many bruising years of negotiations following the UK's Brexit referendum. Things between the EU and the UK seem to be *fine*. But are things really going *well?*

This short paper is a first attempt at measuring the interconnectedness of EU and UK financial markets across 11 key metrics. There are many more ways to analyse and illustrate financial flows, financial services trade, and investment from the EU into the UK and vice versa. Readers who would like to see and support a more comprehensive research report are very welcome to reach out with their thoughts and feedback. Any errors are entirely my own.

I would like to thank Christopher Breen for his diligent data collection that underpins this report; William Wright for his guidance and feedback; the many individuals and organisations who shared their views and insights with us; the City of London Corporation for partnering with us on this fascinating project; and our members for supporting our work on building bigger and better capital markets in Europe - with 'Europe' of course including the EU *and* the UK.

Maximilian Bierbaum
Head of research and director, EU, New Financial
maximilian@newfinancial.org

EXECUTIVE SUMMARY

Here is a 10-point summary of our analysis of the interconnectedness of EU and UK financial markets:

1. **The common challenges facing the EU and the UK:** the EU and the UK face many common challenges - from defence and security to climate change and demographic shifts; from poor economic growth and low levels of investment to the rise of populism. They are tackling many of the same challenges for the same reasons in broadly the same way.

2. **The aim of this paper:** the interconnectedness of EU and UK financial markets remains a 'fact of life' and while there are many areas in which the EU and the UK need to develop their own capital markets to better support their economies, we think it is time for a more serious conversation about how both economies can work more closely together to reduce friction, better address common challenges, and help each other.

3. **Moving beyond Brexit:** this debate is not about re-litigating Brexit, or about trying to undo how the banking and finance industry has responded to it. It is about the potential for pragmatic cooperation.

4. **How we are measuring interconnectedness:** across 11 key sectors of the financial markets we measure i) the total value of activity by EU and UK issuers, or booked in the EU and the UK; ii) the total value of cross-border activity in each sector; and iii) the relative and absolute value of financial activity in the EU and the UK that involves some form of interconnectedness of the EU and the UK. We take a look at where we are today, and at the change in the interconnectedness of EU and UK financial markets since 2015.

5. **A 'fact of life':** the UK overall is a much more international market than the EU, but activity between the two markets accounts for a significant share of overall activity in both the EU and the UK. In the three years to 2024, 25% of all venture capital investment in the EU involved a UK investor; and 28% of all VC investment into UK companies involved an EU investor. Two-thirds of all euro-denominated derivatives trading takes place in the UK, and roughly a fifth of all EU-domiciled investment funds are managed in the UK.

6. **The change since before the Brexit referendum:** the interconnectedness of EU and UK financial markets has increased in a surprising number of sectors since 2015. While the EU has seen an increase in EU-UK activity in around half of sectors that we look at, UK activity seems to be diversifying away from the EU.

7. **A focus on cross-border banking:** banking activity between the EU and the UK has increased from an EU perspective but decreased from a UK perspective since 2015. An upcoming change in EU regulation (article 21c of CRD IV) could make cross-border banking activity into the EU more difficult. For reference, 20% of all EU bank borrowing today is cross-border, and 12% of UK bank lending has an EU counterparty.

8. **A focus on cross-border investment:** at a time when the European economy is stagnating or shrinking, the EU and the UK overall are scaling down their investment into each other's economies. Had things not changed since 2015, the UK overall could have seen an additional £580bn of potential investment from EU investors, and the EU economy a potential additional investment of around €260bn from UK investors.

9. **What we can do about it:** while accepting the realities of the post-Brexit EU-UK relationship, this paper makes five directional recommendations that could help encourage closer cooperation between the two markets - including coordination on incoming regulations, technical improvements, and non-financial measures; making a broader European or international case for cooperation; and making that case *now*.

10. **A few caveats:** the aim of this analysis is not to have all the answers, and there are likely many more ways to measure the interconnectedness of EU and UK financial markets. Readers who would like to see (and support) a more comprehensive research report on this important issue are welcome to get in touch.

THE COMMON CHALLENGES FACING THE EU AND UK (1)

Copy and paste

The EU and the UK are relatively similar markets facing largely similar challenges of investment and growth. On this page we outline five of the biggest challenges facing the two economies. There are many areas in which the EU and the UK need to develop their own capital and financial markets to help address these challenges, but there is a unique window to think about how both could benefit if they would cooperate more and reduce friction in some areas.

Defence and security

5%

The new NATO members' defence spending target as a share of GDP by 2035

In the context of geopolitical tensions and the Russian war against Ukraine, NATO members have agreed to increase their defence spending to 5% of GDP in 10 years from now. While this is the right thing to do, the additional commitment comes at a time when many government budgets in Europe are already stretched thin.

Climate change and sustainability

2050

Both the EU and the UK have a legal requirement to achieve net zero by 2050

Despite a rollback of some sustainability measures, the fight against climate change remains a priority in the EU and the UK. The European Commission estimates that an additional €477bn of annual investment will be needed for the EU to meet its initial 2030 climate goal. The UK's Climate Change Commission expects the annual cost of the transition to net zero for the UK to rise to £45bn by 2030.

Demographic change

2 to 1

The forecasted old-age dependency ratio in the EU and the UK by 2050

The UK and many countries in the EU are facing a demographic time bomb. By 2050, there will be around two people of working age for every pensioner in the EU and the UK (down from roughly three-to-one today). This will put pressure on Europe's pension systems, with measures to stabilise these such as higher tax spending or a move to funded pension schemes not well understood or unpopular.

Investment gap

½

Pools of long-term capital relative to GDP in the UK are less than half the size of US

Addressing Europe's challenges will cost a lot of money. With strict rules on budgets and deficits in both the EU and the UK, public money alone cannot meet these financing needs. Private capital can help, but pools of long-term capital in the UK (at 204% of GDP) and the EU (169% of GDP) that could be deployed to support the European economy are much smaller than in the US (436% of GDP).

Capital markets development

⅓

Relative to GDP, capital markets in the EU are only one-third as deep as the US

Bigger and deeper capital markets can bring many benefits to the European economy and citizens in terms of investment, jobs, and growth. They play a vital role in supporting and growing the European economy. But today they are not in a position to effectively do that job in the EU. Capital markets in the UK are nearly twice as deep as in the EU but still significantly smaller than in the US.

Source: European Commission, Climate Change Committee, UN, OECD, New Financial

Real-life consequences

A key priority in the EU and the UK is to reinvigorate the economy and boost growth. With the US being the reference economy in many discussions on the future of the European economy we thought it would be useful to begin this paper with a comparison of the vibrancy of EU and UK economies and capital markets with the US.

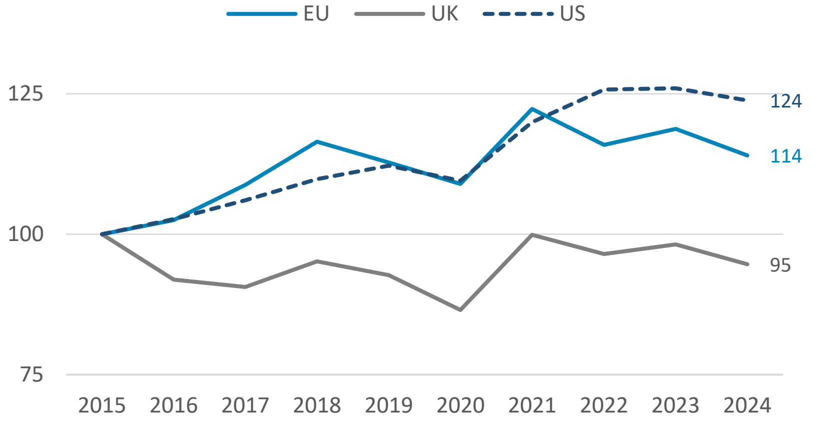
Fig.1 shows EU, UK, and US economic growth adjusted for inflation and rebased to 2015 = 100. The US economy in real terms was 24% larger at the end of 2024 than in 2015. While the economies in the EU and the US followed a similar pattern until 2021, economic recovery after the end of Covid was more dynamic in the US than in the EU. The UK economy at the end of 2024 in real terms was smaller than it was in 2015, the year before the UK's referendum on Brexit.

The development of European and US stock markets over the last decade has resulted in an even wider gap. Fig.2 i) shows that US stock markets have nearly doubled their market capitalisation in real terms, whereas EU stock markets have stood still, and the UK has gone backwards. This disappointing performance of EU and UK economies and capital markets (see also Fig.3 on page 6) has real-life consequences. Growth is not everything, but a lack of growth and a lack of development in many areas of the financial markets mean less investment to address the challenges the EU and the UK are facing.

In many areas, EU and UK banking, finance, and capital markets need to improve on their own to better support their respective economies. In other areas, it could make sense to explore how a closer partnership might help the EU and the UK to tackle their shared challenges more effectively. There is precedent for this: see, for example, the UK's proposed participation in the EU's SAFE programme on joint defence spending.

Fig.1 Economic growth in the EU, the UK, and the US

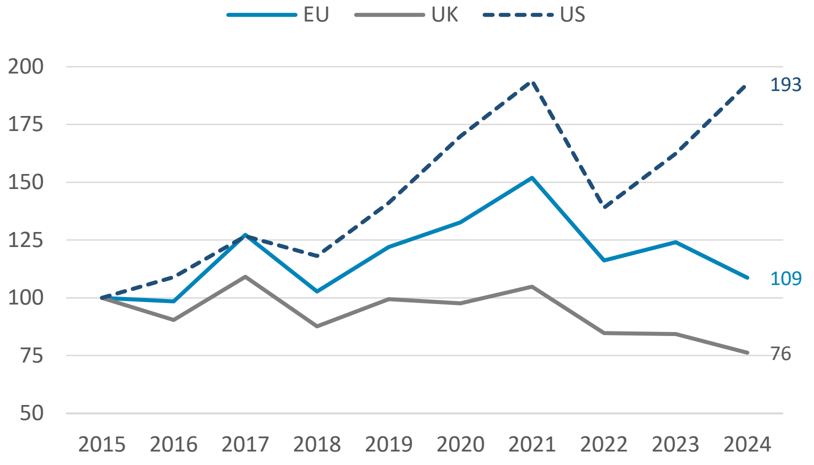
Real GDP growth in the EU, the UK, and the US, rebased to 2015 = 100



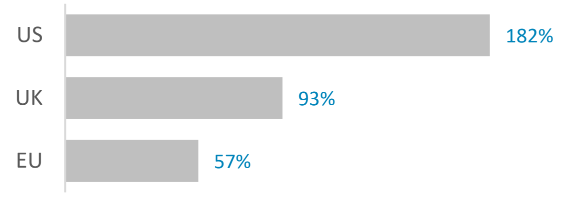
Source: IMF, World Bank, New Financial

Fig.2 The value of stock markets in the EU, the UK, and the US

i) The market capitalisation of stock markets in the EU, the UK, and the US adjusted for inflation and rebased to 2015 = 100



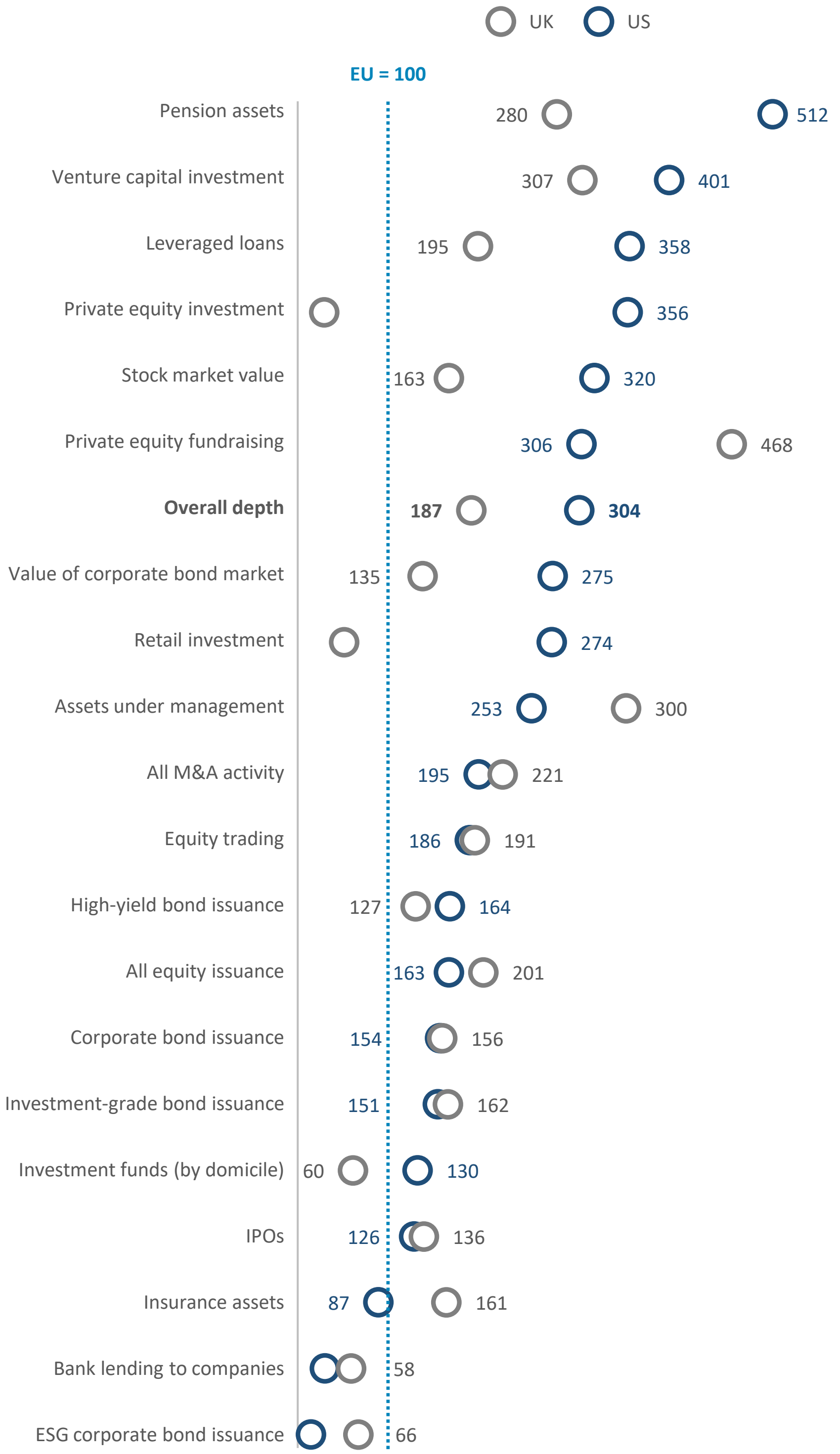
ii) The depth of stock markets in the EU, the UK, and the US (market capitalisation relative to GDP), three-year rolling average to 2024



Source: FESE, WFE, World Bank, national stock exchanges, IMF, New Financial

Fig.3 The depth of EU, UK, and US capital markets

The depth of capital markets activity relative to GDP in different sectors in the UK and the US compared with the EU average at 100 (three years to 2024 across 20 sectors)



Source: New Financial. Note: depth of equity trading is calculated as a % of market cap

Sector by sector

A closer look at different areas of activity in the capital markets shows that US capital markets are more developed than the EU and the UK in *most* sectors, and in nearly *all* sectors, US capital markets are much more developed than the EU.

Fig.3 shows the relative depth of capital markets activity in 20 sectors in the UK and the US compared with the EU average at 100. For example, in terms of venture capital (VC) investment, this means that the value of VC deals in the US relative to the size of the US economy (at 401) is four times as large as in the EU, and larger than in the UK (at 307) by about one-third.

US capital markets are more than four times as deep as the EU on average in two of the 20 sectors that we look at, and more than twice as deep in another eight. The UK's capital markets overall are almost twice as deep as the EU's. The EU is deeper than the UK or the US in six sectors. Of those sectors, the lead in bank lending is perhaps a 'Pyrrhic victory': the balance sheets of banks in the EU are already too stretched and, ideally, companies in the EU would diversify their financing options away from bank lending.

A fictional joint EU-UK capital market (which wasn't so fictional right up until the end of 2020…) would overall be around 14% deeper relative to GDP than the EU on its own. While this alone would not solve all the problems the European economy is facing, it is another way of thinking about how with Brexit the EU has lost its largest financial centre. At a time when the European economy needs all the help it can get, this does make a difference.

Alive and kicking

The interconnectedness of EU and UK financial markets remains a 'fact of life' despite Brexit and, in some sectors, has increased since 2015, the year before the Brexit referendum took place in the UK.

Fig.4 shows the share of overall activity in nine key sectors of the financial markets in the EU and the UK that involves some form of EU-UK interconnectedness, and how this share has changed. For example, the table shows that only 1% of all bonds issued by EU companies by value in the three years to 2024 were issued in GBP (down from 2% in the three years to 2015), but that 36% of bonds issued by UK companies were issued in an EU currency (up from 32%).

Cross-border activity between the EU and the UK accounts for a quarter of total financial activity in the EU in one sector, for 10% or more in another two sectors, and for 5% or more in another three. From an EU perspective, there has been an increase in the interconnectedness of EU and UK financial markets in four of the nine areas of activity that we look at on this page.

In the UK, EU-UK financial activity accounts for more than half of total UK activity in one sector, and for more than one-third in another three. The interconnectedness of EU and UK financial markets has increased in three sectors from a UK perspective.

The data on VC investment is particularly remarkable. In the three years to 2024, 25% of all VC investment into EU companies by value involved a UK-based investor, and 28% of all investment into UK companies involved an EU-based investor. In both markets, these shares have significantly increased since the end of 2015. Financing innovation is a priority in both the EU and the UK, and it is clear that both sides benefit from having access to investors on the other side of the Channel.

Fig.4 Summary: interconnectedness of EU-UK financial markets

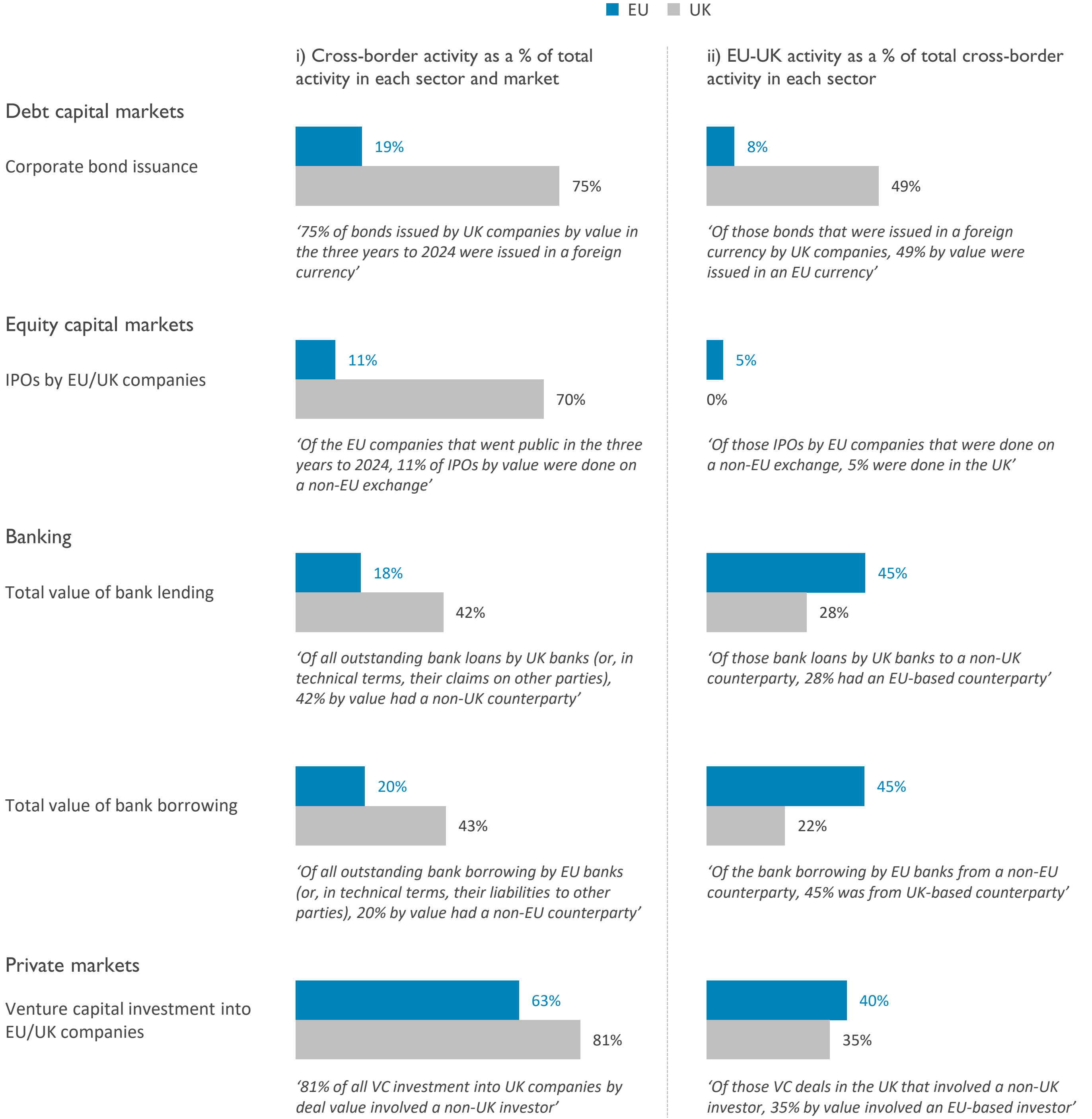
This table shows the share of overall activity in nine key sectors of financial markets in the EU (in blue) and the UK (in grey) that involves some form of interconnectedness of the EU and the UK. Three-year average to 2024 or latest available. Arrows indicate whether this share has increased or decreased since 2015 in each market. *For our full methodology please see page 17*

Metric	EU		UK	
Debt capital markets				
Corporate bond issuance	1%	↓	36%	↑
This means that 1% of bonds issued by EU companies by value in the three years to 2024 were issued in GBP; and 36% of bonds issued by UK companies were issued in an EU currency.				
Equity capital markets				
IPOs	1%	↓	0%	→
1% of IPOs by EU companies by value were done in the UK; and there were no IPOs by UK companies in the EU in the three years to 2024.				
Banking				
Total value of bank lending	8%	↑	12%	↓
8% of the total value of bank lending by EU banks (or, in more technical terms, of their claims) had a UK counterparty; and 12% of the total value of bank lending by UK banks had an EU counterparty.				
Total value of bank borrowing	9%	↑	9%	↓
9% of the total value of bank borrowing by EU banks (or, in more technical terms, of their liabilities) had a UK counterparty; and 9% of the total value of bank borrowing by UK banks had an EU counterparty.				
Private markets				
Venture capital investment	25%	↑	28%	↑
25% of total VC investment into EU companies involved a UK-based investor; and 28% of VC investment into UK companies involved an EU-based investor.				
Trading				
Foreign exchange*	10%	↓	38%	↓
10% of FX trading booked in the EU by value involved a GBP trade; and 38% of FX trading booked in the UK by value involved a trade in an EU currency.				
Derivatives*	2%	↓	54%	↑
2% of derivatives trading booked in the EU by value was denominated in GBP; and 54% of derivatives trading booked in the UK was denominated in an EU currency.				
Corporate activity				
M&A activity	5%	↓	10%	↓
5% of all M&A deals by EU acquirors by value had a UK target; and 10% of M&A deals by UK acquirors by value had an EU target.				
Buyout activity	13%	↑	35%	↓
13% of all buyout deals by EU funds by value had a UK target; and 35% of buyout deals by UK funds by value had an EU target.				

*Source: Dealogic, BIS, Preqin, New Financial. Note: * data from 2025*

Fig.5 The interconnectedness of EU and UK financial markets today

These charts show i) cross-border activity as a percentage of total financial markets activity in each sector in the EU and the UK, and ii) EU-UK activity (and vice versa) as a percentage of total cross-border activity in each sector in the EU and the UK. Three-year average to 2024 or latest available

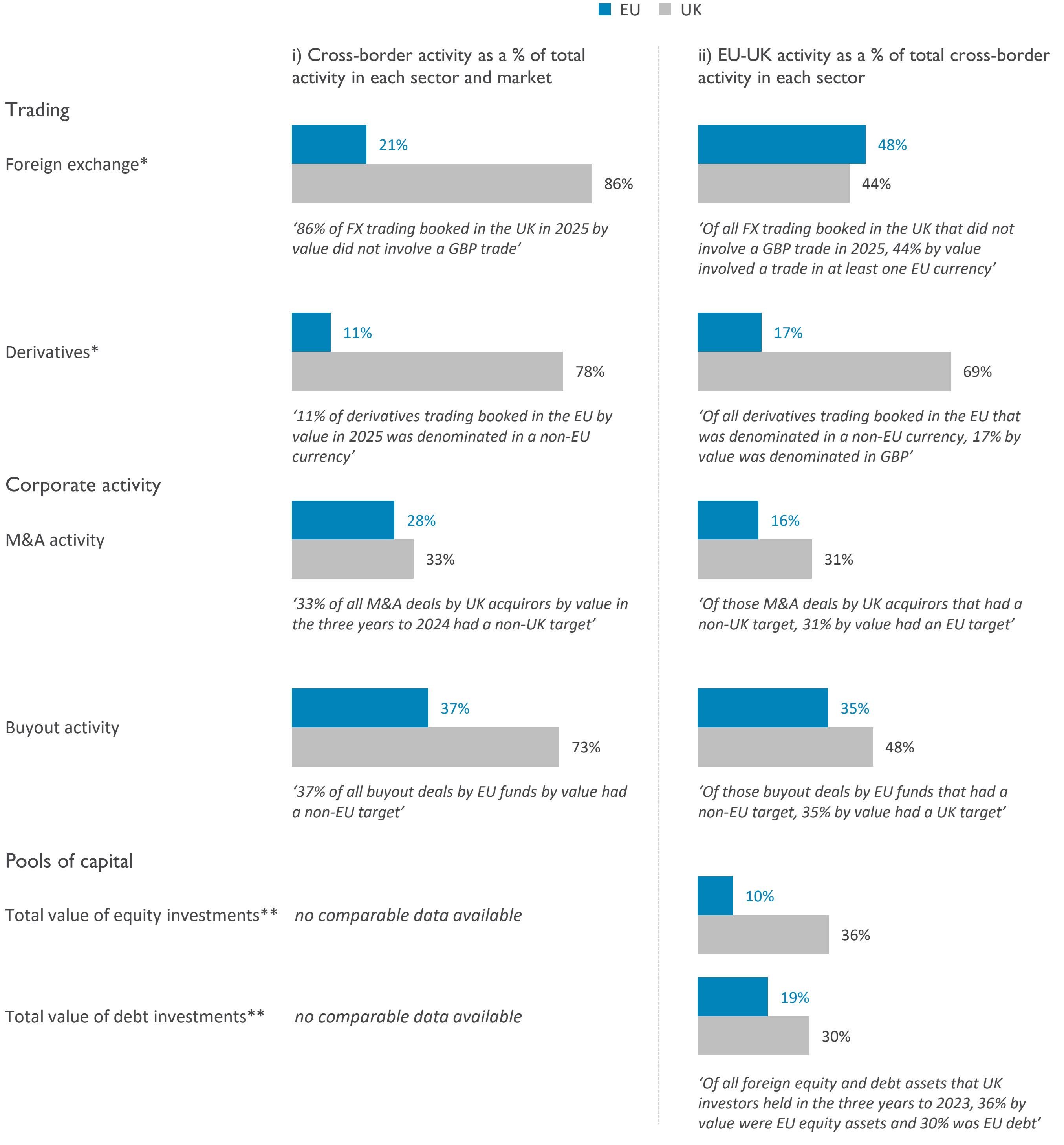


Source: New Financial analysis of data from Dealogic, BIS, and Preqin

DATA SUMMARY: EU-UK INTERCONNECTEDNESS (3)

Fig.5 The interconnectedness of EU and UK financial markets today (cont'd)

These charts show i) cross-border activity as a percentage of total financial markets activity in each sector in the EU and the UK, and ii) EU-UK activity (and vice versa) as a percentage of total cross-border activity in each sector in the EU and the UK. Three-year average to 2024 or latest available



*Source: New Financial analysis of data from the BIS, Dealogic, and the IMF. Note: * data from 2025 ** data from 2023*

DATA SUMMARY: EU-UK INTERCONNECTEDNESS (4)

Fig.6 The change in the interconnectedness of EU and UK financial markets since before the Brexit referendum

This table shows how the interconnectedness of EU and UK financial markets has changed since 2015 in real terms and in terms of whether or not EU-UK activity (and vice versa) has increased as a percentage of total cross-border activity in each market and sector. A green arrow indicates an increase in activity, a red arrow indicates a decrease in activity. Three-year average to 2015 and to 2024 or latest available

	EU - UK			UK - EU		
Metric		Real growth since 2015?	Increase in share of all EU cross-border activity since 2015?		Real growth since 2015?	Increase in share of all UK cross-border activity since 2015?
Debt capital markets						
Corporate bond issuance	EU issuer in GBP	↓ -35%	↑	UK issuer in EU currency	↓ -15%	↑
Equity capital markets						
IPOs	EU in UK	↓ -89%	↓	UK in EU	→ n/a	→
Banking						
Total value of bank lending	EU to UK	↑ +67%	↑	UK to EU	↓ -27%	↓
Total value of bank borrowing	EU from UK	↑ +81%	↑	UK from EU	↓ -32%	↓
Private markets						
Venture capital investment	EU from UK	↑ +228%	↑	UK from EU	↑ +454%	↑
Trading						
Foreign exchange*	GBP booked	↑ +7%	↑	EU currency	↑ +39%	↓
Derivatives*	in EU	↑ +75%	↑	booked in UK	↑ +200%	↑
Corporate activity						
M&A activity	EU to UK	↓ -75%	↓	UK to EU	↓ -51%	↓
Buyout activity	EU to UK	↑ +272%	↑	UK to EU	↓ -9%	↓
Pools of capital						
Total value of equity investments**	EU holdings of	↑ +10%	↓	UK holdings of	↑ +61%	↑
Total value of debt investments**	UK assets	↑ +19%	↓	EU assets	↓ -63%	↓

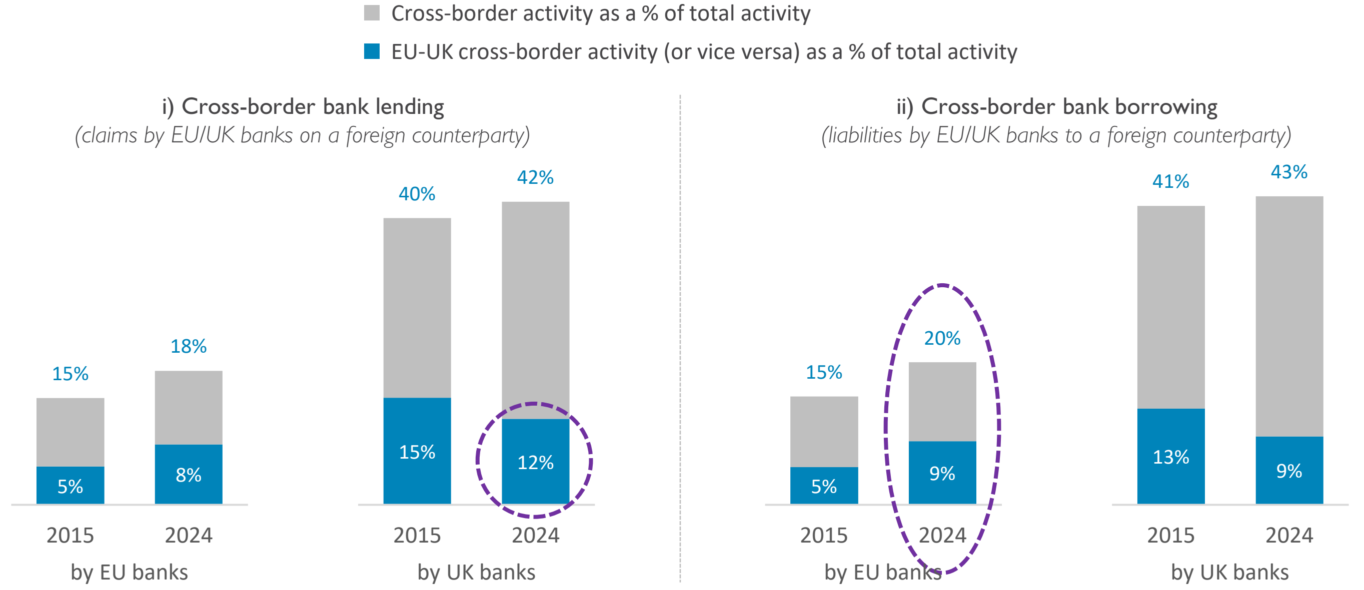
*Source: New Financial analysis of data from the IMF, World Bank, Dealogic, BIS, and Preqin. Note: * measuring 2016 to 2025 ** data from 2023*

Another way of looking at how the interconnectedness of EU and UK financial markets has changed since 2015 is to measure the change in the absolute value of activity in real terms, and in terms of whether the share of EU-UK activity (and vice versa) has increased as a percentage of total cross-border activity in each market.

Fig.6 shows that on both counts the EU has seen an increase in EU-UK activity in more than half of the sectors that we look at. UK activity overall is diversifying away from the EU, with UK-EU activity down in real terms in six sectors and as a share of overall UK cross-border activity in another six. This may be a reflection of the UK being a relatively more open economy and financial centre than the EU. While the inflation-adjusted 61% increase in UK equity investment into the EU is striking, this may have been driven by UK firms establishing a presence in the EU to maintain market access. In four areas of activity, there was a small increase in the relative importance of the EU in UK cross-border activity: for example, corporate bonds issued by UK issuers in an EU currency on average made up 49% of all non-sterling corporate bond issuance in the three years to 2024 - but only 45% in the three years to 2015.

Fig.7 The change in cross-border bank lending and borrowing between the EU and the UK

These charts show the total value of i) cross-border bank lending and ii) cross-border bank borrowing as a percentage of total bank lending and bank borrowing in the EU and the UK in the three years to 2015 and 2024. The highlight in purple shows banking activity in the EU (all cross-border borrowing) and the UK (lending to an EU counterparty) that could potentially be affected by article 21c of the EU's CRD IV.



Source: New Financial analysis of data from the BIS

Trouble on the horizon?

Banking activity between the EU and the UK has increased from an EU perspective but decreased from a UK perspective since 2015. This has been driven by several factors. First, the UK is a much more international market for banking activity than the EU. In the three years to 2024, 42% of all bank lending and 43% of all bank borrowing by UK institutions involved a non-UK counterparty. Second, both the EU and the UK have become more international markets in banking over the past decade. And third, while EU banking activity involving a UK counterparty increased from 2015 to 2024, UK banking activity involving EU counterparties has decreased. EU bank lending to a UK counterparty (claims by an EU bank on a UK counterparty) has increased by more than half from 5% of the overall value of the stock of EU bank lending in 2015 to 8% in 2024, but UK bank lending to EU counterparties has decreased by one-fifth from 15% to 12% of the overall value of UK bank lending.

An upcoming change in EU regulation could make cross-border banking activity into the EU more difficult. Article 21c of the EU's sixth capital requirements directive (CRD VI) will restrict most so-called 'core banking services' such as taking deposits and lending into the EU by non-EU banks and other large third-party financial institutions from 2027 unless those institutions set up a branch in an EU member state. Fig.7 shows in purple that in headline terms today this could affect up to 20% of all EU bank borrowing (the 20% in Fig.7 ii) include EU bank borrowing from non-EU EEA counterparties that would not fall under any article 21c obligations), and up to 12% of total UK bank lending.

Not all lending and borrowing that is captured in this data will fall under the EU's definition of 'core bank services', and the EU has of course every right to protect and bolster its strategic autonomy. But in times when the EU economy needs all the help it can get, this disruption could have a negative impact on the EU's ability to finance strategically important projects and, ultimately, EU economic growth and competitiveness.

Going backwards

At a time when the economy is stagnating in many parts of Europe, it is not a good sign that the EU and the UK overall are scaling down their investment into each other's economies relative to the total value of cross-border investments by EU and UK investors.

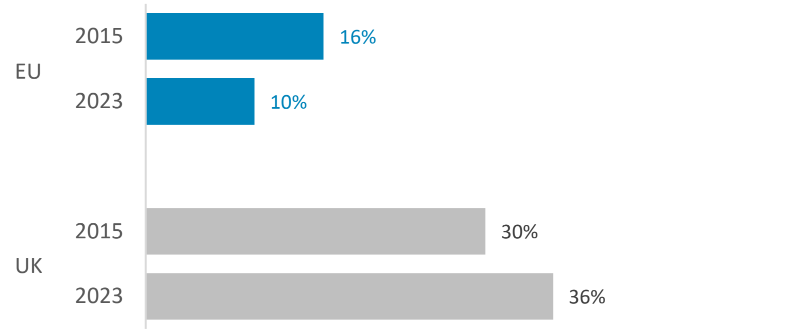
Fig.8 i) on equity investment and ii) on debt show that the value of holdings by EU investors of UK equity and debt assets, and by UK investors of EU debt assets, as a percentage of EU and UK total cross-border investment has decreased from 2015 to 2023. The only uptick has been in UK investment into EU equity, which has increased from 30% to 36% of total cross-border equity holdings by UK investors. EU and UK investors actively diversifying away from the other market could be driving this overall trend, although another possible explanation is the overall increasing attractiveness of the US economy and stock markets that have sucked a lot of global capital into US assets in recent years.

If the value of holdings by EU investors of UK equity and debt assets as a percentage of all cross-border investments by EU investors had remained at the level of 2015, there could be an additional £580bn of investment in the UK today. On the flipside, if UK debt investors had not diversified away from EU assets between 2015 and 2023, there could be an additional €260bn invested in EU debt.

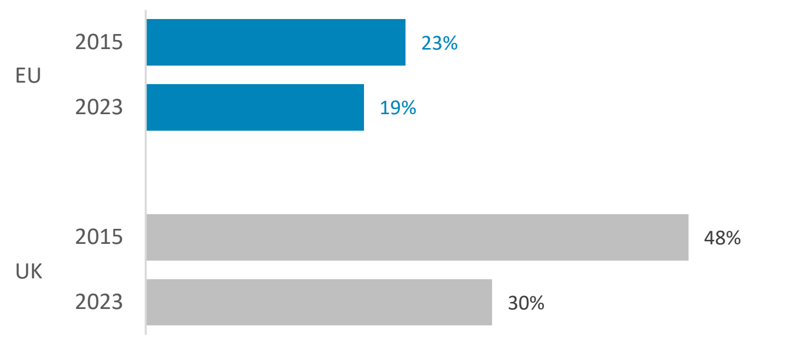
While it is great to see a focus on what the EU can do on its own to channel more investment into the EU economy, it is striking that its most recent savings and investments union strategy does not include a focus on attracting foreign investment (which featured more strongly in the original capital markets union plans). The UK too is thinking about how to encourage more domestic investment into UK assets but at the same time actively tries to attract international capital.

Fig.8 The value of EU-UK cross-border investment

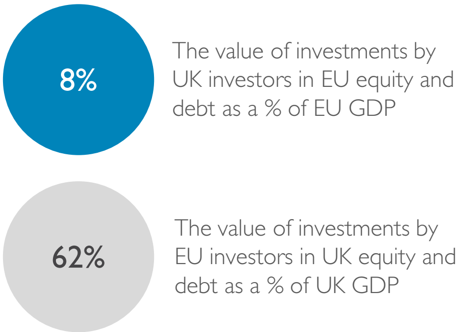
i) The value of holdings by EU investors of UK equity shares (in blue) and by UK investors of EU equity shares (in grey) as a percentage of all cross-border equity holdings by EU and UK investors. Three-year average to 2015 and 2023



ii) The value of holdings by EU investors of UK debt (in blue) and by UK investors of EU debt (in grey) as a percentage of all cross-border debt holdings by EU and UK investors. Three-year average to 2015 and 2023



iii) The total value of holdings by UK investors of EU equity and debt (blue circle) and by EU investors of UK equity and debt (grey circle) as a percentage of EU and UK GDP, three-year rolling average to 2023



Source: IMF, New Financial

Fig.9 Mapping the evolution of reforms in the EU and the UK

This table summarises the key elements of the reform programmes in banking, finance, and capital markets in the EU and the UK.

Sector / theme	EU	UK
Policy framework	Savings and investments union	Edinburgh reforms & Leeds reforms
Growth & competitiveness	Simplification agenda	Secondary growth & competitiveness objective
Listings reform	Listing act	New listings & prospectus regime
Market structure	Market integration package; consolidated tape	FCA consultation on equities; consolidated tape
Retail investment	Savings and investment accounts blueprint; EU financial literacy strategy	Information campaign + ISA reform; financial education
Pensions	Recommendations on auto-enrolment; PEPP 2.0	Pension schemes bill; Mansion House reforms; pensions commission
Sustainability	Rewriting SFDR	UK sustainability reporting standards
Banking	CRD VI; EU version of Basel 3.1	UK version of Basel 3.1; FPC review
Insurance	Solvency II reforms	Solvency UK
Digital assets	MiCA; work on digital euro	Partnership with US; work on digital pound and digital gilt; FCA consultation on stablecoins

Source: New Financial

Given that the EU and the UK face many of the same challenges, had the same regulatory framework until five years ago, and are deeply interconnected markets and economies, it is perhaps not surprising that they are focusing on many of the same issues in their respective reform agendas. The EU and the UK are looking at the same issues for the same reasons, coming to similar conclusions with similar solutions, but with differences in implementation, specific rules, and timelines.

The table in Fig.9 shows a (non-exhaustive) summary of the convergence in the reform agendas in different sectors of activity. The UK has the Edinburgh reforms and the Leeds reforms, the EU has the newly renamed savings and investments union. The EU has its simplification agenda, the UK has the secondary growth and competitiveness objective. The EU is reforming Solvency II for insurance, and the UK has branded its own reforms as Solvency UK. And so on… While in some sectors the EU and the UK are starting from different places (particularly pensions reform), in virtually every sector there is a sense of each side copying the other's homework to ensure that neither side opens up a significant a competitive advantage.

This convergence in the reform agendas in the EU and the UK means that their regulatory frameworks will evolve broadly in parallel. While there will inevitably some divergence (given that the EU and the UK do not agree on everything), the frameworks are evolving in broadly the same direction. This presents an opportunity for cooperation as much as it does for competition: both the EU and the UK to work more closely together, and to learn from each other as to what does and does not work. While any such collaboration would be technical in nature to start with, it could lead to joint projects further down the line.

Making the case

There are many realities that need to be acknowledged when taking a look at how to improve the relationship between the EU and the UK post Brexit. When engaging with market participants and policymakers as part of this research we were told that overall things are 'relatively fine'; that companies have adjusted (and do not have a whole lot of appetite to adjust again); that the focus should be on 'not making things worse'; that the current government in the UK has its red lines when it comes to the UK's relationship with the EU; and that the EU is relatively busy with focusing on itself and on what steps the EU and member states can take on their own to improve EU economy and EU capital markets. And one could argue that with the EU and the UK reforming, tweaking, updating, and simplifying their respective rulebooks for the financial markets, as time goes on the two markets are moving further apart.

But this paper demonstrates another reality: that - despite Brexit - the EU and the UK are still very interconnected markets. In the context of their common challenges it can make sense to explore i) how the EU and the UK can reduce the friction that makes cross-border financial activity between the two markets more difficult than it needs to be today, and ii) how EU-UK cross-border activity could be fostered and encouraged in the future in areas where it is making sense, for example to enable more cross-border investment to flow into EU and UK projects. Here are five directional recommendations that could help encourage closer cooperation between the EU and the UK:

> **i) A focus on incoming regulations and measures:** while the rules, regulations, and agreements that underpin the existing relationship between EU and UK banking, finance, and capital markets today are far from perfect it is making a lot more sense to focus on areas where the development of rules is still underway and where measures have not yet been implemented to foster a closer EU-UK relationship. We received near universal feedback that it would be much more useful and productive (and, relatively speaking, easier) to try and get the EU and the UK to move together in new areas such as sustainability (think: transition finance) or digital (think: digital assets, tokenisation), or in areas that both sides are reviewing in parallel, than to reopen and change existing files that market participants have already implemented and made their peace with.
>
> As part of this, both the way in which the finance industry is making the case for closer cooperation between the EU and the UK but also the way in which the joint EU-UK financial regulatory forum works could be much more forward-looking and always framed in the context of the common challenges that the EU and the UK are facing. One concrete step could be to amend the terms of reference for the EU-UK regulatory dialogue (and, in fact, for any regulatory dialogue between the EU, the UK, and other economies) to include a mandate for each dialogue to explore and discuss where there might be opportunities to help deliver better economic value in both economies if upcoming measures were implemented in a coordinated fashion.
>
> **ii) A focus on technical improvements:** technical reforms and improvements that would make a real difference for market participants that engage in cross-border activities but do not cause political problems (either because of a lack of visibility or because they are genuinely uncontroversial) are the closest thing there is to what we can call 'low hanging fruit' in this debate. A very good example of this is the agreement between the EU and the UK (and Switzerland) on the shortening of the settlement cycle to move together to T+1 in October 2027. There is no (political) reason why the EU and the UK should not move to T+1 on the same day but it would have caused significant disruption for market participants operating in both markets. Other examples of such technical reforms and improvements where more alignment could make sense are a mechanism to connect the frameworks in the EU and the UK for consolidated tape to encourage consistent price formation across both jurisdictions; an invitation to UK issuers to disclose data through the European Single Access Point (ESAP); to look at the plumbing of the financial markets more widely (especially in a more and more digital world that does not really know borders); and to have the UK rejoin all EU and European statistics agencies such as Eurostat to establish one definitive source for data on the *European* economy.

Another technical measure that would make a huge difference but is a lot more politically controversial is the 'time-limited' equivalence in clearing by the EU for UK CCPs. It was positive to see that the extension of the equivalence decision in January 2025 for another three years saw much less backlash than in 2022, but market participants (and the functioning of European capital markets) would benefit from more long-term certainty. The EU and the UK could explore new forms of cooperation (such as binding, bilateral frameworks instead of unilateral equivalence decisions) to ensure this certainty in areas that are beneficial for both markets.

iii) Non-financial material matters: progress on technical and regulatory issues that directly affect banking, finance, and the capital markets is relevant and useful on its own but it is equally if not more important to make progress in areas that do not directly relate to the financial sector but would be very beneficial to it and the people working in finance. The UK rejoining the Erasmus+ programme and the EU and the UK agreeing a comprehensive youth mobility and experience scheme; simpler provisions for short-term business visitors; a programme of secondments and exchanges between UK, EU, and EU member state financial regulators and supervisors (inspired by the ECB's Schuman programme); or better mutual recognition of professional qualifications all would contribute to an increasing exchange between the EU and the UK and could help bring the two economies and, in consequence, their capital and financial markets closer together.

iv) A wide-angle perspective: when making the case for closer cooperation between the EU and the UK it could help to take a step back and not just exclusively focus on the EU and the UK but to look at European and / or international cooperation between friendly, comparable economies more widely and explore new forms of regulatory cooperation. While the debate on the EU-UK relationship has calmed down and is not as politically charged anymore as it was in the years just before and after Brexit, there is still a lot of residual (and not entirely unjustified…) suspicion in the UK when it comes to the EU ('they want to tell us how to do things'), and in the EU when it comes to the UK ('they see Brexit as an opportunity for a regulatory bonfire').

Finding common ground and agreement on in which technical, regulatory, or policy areas it might make sense to move together between not just the EU and the UK but also with for example Switzerland (or Canada or Australia or Japan or…) might make the political debate easier (although negotiations not necessarily quicker). As a starting point, the EU and the UK (perhaps through the regulatory forum) could agree to always keep each other in the loop when they decide to diverge from globally agreed standards (such as on Basel). The idea is not to interfere with EU and UK independent decision-making on how to best adapt international rules to their local markets, but to build trust - which is much easier when there are fewer surprises on each side.

v) A (unique) window of opportunity: the world has moved on since the Brexit referendum in 2016, and a more uncertain geopolitical environment is a powerful driver to rethink and strengthen relationships between friendly, industrialised, and democratic Western economies. With a European Commission that has moved on from scarring Brexit negotiations, a (relatively) EU-friendly government in the UK, and a second Trump administration in the US, there is perhaps a unique window of opportunity to think about the future relationship between the EU and the UK. The world could look very different again after the next UK and EU elections in 2029, with an upcoming UK government potentially relying on a smaller parliamentary majority with a much less EU-friendly approach, and the EU seeing a surge in backing for more isolationist parties too. Supporters of a closer EU-UK relationship will need to make their case very soon and very quickly.

One good starting point would be for people who are based in the UK and work for large EU financial institutions (say, a German investment bank or a French asset manager) to make the case for a closer relationship between the EU and the UK when speaking to their colleagues and senior executives in Frankfurt, Paris, and other financial centres all across the EU who are much more focused on domestic or EU issues and may not have the EU-UK relationship very high up their lists of priorities. Perhaps a data-backed paper on the interconnectedness of EU and UK financial markets could help support and inform those conversations…

New Financial is a think tank that believes Europe needs bigger and better capital markets to help drive growth and prosperity. We work with market participants and policymakers to help make a more positive and constructive case for capital markets. For more information on our work, please contact us.

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Lead author

Maximilian Bierbaum, head of research and director, EU, New Financial

Maximilian manages the delivery of our research programme and oversees our EU programme. Before joining New Financial, he worked at the City of London Corporation where his research evaluated the UK's business environment for financial and professional services, and at pan-European economic consulting firm Oxera.

New Financial Forum LLP
19 Aylesbury Street
London
UK, EC1R 0DB
www.newfinancial.org

William Wright
Managing director
william.wright@newfinancial.org
+44 (0) 20 3743 8269

Follow us on LinkedIn
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Fig.10 Methodology, sources, and notes

This table shows how we are measuring the interconnectedness of EU and UK financial markets across the 11 key metrics that are included on pages 7-10. Where possible we use a three-year average of any data to iron out the annual volatility in the financial markets, and we adjust data for inflation to measure any change in activity over time in real terms. 'EU' means EU27 excluding the UK.

Metric	What are we measuring?	Stock or flow?	Source	Notes
Debt capital markets				
Corporate bond issuance	Value of bonds issued by EU companies in GBP Combined value of bonds issued by UK companies in EUR, BGN, CZK, DKK, HUF, PLN, RON, and SEK	Flow	Dealogic	Data from 2013 to 2024
Equity capital markets				
IPOs	Value of IPOs by EU companies listing in the UK Value of IPOs by UK companies listing in the EU	Flow	Dealogic	Data from 2013 to 2024
Banking				
Total value of bank lending	Bank claims by EU banks on UK counterparties ('EU to UK') Bank claims by UK banks on EU counterparties ('UK to EU')	Stock	BIS	Data from 2013 to 2024 BIS reports the total value of 'bank claims' and 'bank liabilities'. In the spirit of simplicity we're calling this 'bank lending' and 'bank borrowing' in this paper
Total value of bank borrowing	Bank liabilities by EU banks to UK counterparties ('EU from UK') Bank liabilities by UK banks to EU counterparties ('UK from EU')			
Private markets				
Venture capital investment	Value of venture capital investment into EU companies involving a UK-based investor ('EU from UK') Value of venture capital investment into UK companies involving an EU-based investor ('UK from EU')	Flow	Preqin	Data from 2013 to 2024
Trading				
Foreign exchange	Value of FX trading where one leg is GBP booked in the EU Combined value of FX trading where one leg is EUR, BGN, CZK, DKK, HUF, PLN, RON, or SEK trading booked in the UK	Stock	BIS	Data from 2013 to 2024 BIS reports the total value of 'bank claims' and 'bank liabilities'. In the spirit of simplicity we're calling this 'bank lending' and 'bank borrowing' in this paper
Derivatives	Value of GBP-denominated derivatives trading booked in the EU Combined value of EUR, BGN, CZK, DKK, HUF, PLN, RON, and SEK-denominated derivatives trading booked in the UK			
Corporate activity				
M&A activity	Value of acquisitions by EU firms of UK firms ('EU to UK') Value of acquisitions by UK firms of EU firms ('UK to EU')	Flow	Dealogic	Data from 2013 to 2024
Buyout activity	Value of acquisitions by EU funds of UK firms ('EU to UK') Value of acquisitions by UK funds of EU firms ('UK to EU')			
Pools of capital				
Total value of equity investments	Value of holdings by EU investors of UK equity assets Value of holdings by UK investors of EU equity assets	Stock	IMF	Data from 2013 to 2023 No comparable data available on the total value of domestic and cross-border investments
Total value of debt investments	Value of holdings by EU investors of UK debt assets Value of holdings by UK investors of EU debt assets			