



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Baroness Kramer
House of Lords
London
SW1A 0PW

1 March 2023

Dear Baroness Kramer,

FINANCIAL SERVICES AND MARKETS BILL: MUTUAL RECOGNITION AGREEMENTS

Thank you for your contribution during the third Grand Committee debate on the Financial Services and Markets Bill on 1 February 2023. I committed to write to you in response to a question you raised about Mutual Recognition Agreements (MRAs).

The Bill gives the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) new secondary objectives to facilitate the international competitiveness of the UK economy and its growth in the medium to long term. The FCA and the PRA are required to facilitate these new secondary objectives subject to alignment with “international standards”. As I set out during the debate on 1 February, the government does not consider MRAs to be international standards. MRAs are international agreements subject to international law and based on the principle of deference, where the UK and another country agree to mutually defer to each other’s regulatory, supervisory and enforcement regime.

You asked about the process and conditions for agreeing MRAs, and how that related to the equivalence framework.

Outside of the EU, the UK is able to form its own international agreements related to trade that will benefit UK firms and businesses. This includes negotiating MRAs in financial services, alongside other mechanisms such as Free Trade Agreements or equivalence decisions.

Equivalence is an autonomous process where HM Treasury, in specific areas of financial services regulation, determines that another jurisdiction's regulatory and supervisory framework are equivalent to the UK's on a technical outcomes basis. This serves to facilitate cross-border financial services activity in relation to that equivalent jurisdiction by permitting market access and reducing regulatory frictions or costs to firms.

By contrast, MRAs are international agreements between the UK and another country where both countries agree that each country has equivalent laws and practices in relation to particular areas of financial services and markets regulation. MRAs negotiated by the government are likely to go further than, or function differently to, existing equivalence mechanisms. The purpose of Clause 23 in the Bill is to enable the government to implement MRAs in such circumstances, and to ensure the government can properly give effect to these agreements in domestic law.

Any future MRA would be the culmination of continued discussions with other jurisdictions and would likely be negotiated following other agreements or arrangements, such as a financial dialogue. Given that we will negotiate MRAs with jurisdictions with similarly high regulatory standards, it is likely that the UK will have made previous equivalence decisions in some areas of financial services for that country, but this is not a requirement for entering into an MRA.

We are currently negotiating a comprehensive wholesale market MRA to improve the cross-border market between the UK and Switzerland. As part of the negotiation process for this MRA, HM Treasury is working closely with the regulators to conduct assessments of the relevant parts of Switzerland's regulatory and supervisory frameworks to ensure that they are sufficiently comparable to warrant a system of deference under the MRA. It

is the government's expectation that a similar assessment would take place during the negotiation of any further MRAs

This assessment process ensures that the UK will only defer to another MRA partner's regulatory regime in areas where that other jurisdiction meets equivalently high standards for regulation and supervision. Therefore, MRAs are not a way of avoiding an assessment of equivalence, and both MRAs and equivalence decisions are based on a commitment to high regulatory standards.

I look forward to further discussing these issues throughout the passage of the Bill. I am copying this letter to other Peers who spoke during the debate, and I am depositing a copy of this letter in the Library of the House.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'PENN', with a stylized, cursive flourish.

BARONESS PENN